BRITISH BANKS AND THE LONDON MONEY MARKET

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FOREWORD

THE literature dealing with the historical development of the British banking system and the London money market is extensive. Unfortunately, most books on this subject, while dealing effectively with the evolution of the component parts of this market, such as the clearing banks, the discount market and the acceptance houses, have failed to show satisfactorily the organic unity of the system. M. Truptil's book not only admirably fills this gap but, what is more important, it contributes an excellent study of the recent operation of the system as a whole in the light of the changes that have taken place as a result of the economic depression and Britain's abandonment of the Gold Standard. The value of such a study cannot, indeed, be over-estimated, for only by a thorough understanding of the way in which the banks and the money market have reacted to the 'cheap money' policy pursued by the Treasury in collaboration with the Central Bank since the spring of 1932, can an effective monetary policy be devised having for its objects both the continuance of internal recovery and the accomplishment of exchange stability so essential for the growth of world trade and to London's position as the world's financial centre.

The financial strength of the City of London and the unique position of the discount market and the merchant banks has been the theme of many able pens, but it has remained for M. Truptil to do adequate justice to the financial and commercial organization of the City of London. In an excellent chapter on the City the topographical unity is attractively described and stress is laid upon the

immense advantages obtained from the close proximity of all the banks, the Stock Exchange, the commodity exchanges, the shipping and insurance companies. The facilities for rapid contact between heads of businesses and between their employees, the ease with which brokers make their daily rounds, having to go only from door to door, are vividly pictured, and adequate justice is done to the *esprit de corps* and the moral authority of the Bank of England, showing that the functional unity of the organs of the money market is only one aspect of the harmony of the financial mechanism of the City. The position of London as a financial centre stands out with even greater clarity when comparison is made with money markets abroad. In an informative chapter on the London and Paris money markets M. Truptil gives a detailed comparison with the facilities available in Paris.

Not the least valuable part of M. Truptil's book is the statistical analysis of the resources of the London money market, the size of short-term funds and the distribution of the assets of the clearing banks, discount and acceptance houses. Besides adding greatly to the realism of his study, his analysis is of service in revealing the dominating part played by the Treasury Bill in determining money rates since the War and again since the depression with the decline in commercial bills and the increase in default abroad.

In a graphic description of the part played by the British banks during the economic crisis M. Truptil suggests that at the end of 1932, with the War Loan conversion assured, the exchange rate in equilibrium and with large stocks of gold in the possession of the Exchange Fund, a return of the Gold Standard would have re-established conditions of world stability. This is a point upon which there is of necessity great divergence of opinion, but M. Truptil

is evidently convinced of the correctness of his view. Perhaps we may be apt to overlook in this country the increased deflationary burden that was imposed on the 'gold' countries by the depreciation of sterling. If so, M. Truptil renders a service in reminding us of it.

I am sure readers will find M. Truptil's work not only informative and interesting but also stimulating.

R. M. KINDERSLEY

PREFACE TO THE FRENCH EDITION

L'ORGANISATION perfectionnée du marché monétaire de Londres reste de génération en génération un sujet qui attire les économistes.

Avant la guerre mondiale, Bagehot, puis Clare et Hartley Withers, nous en ont donné des descriptions très complètes qui ont été traduites en français.

Depuis la querre ce marché s'est développé dans les conditions anormales de l'économie mondiale, mais il n'a perdu aucune de ses caractéristiques principales, avec peut-être cette différence que l'autorité de la Banque d'Angleterre au cours des dix dernières années n'a cessé de s'accroître dans tous les domaines. Le marché monétaire anglais a une tête et cette tête est la Banque d'émission. On peut dire que c'est à Londres que la doctrine d'une Banque Centrale, à la fois soutien et guide du marché monétaire s'est formée, grâce à l'incomparable autorité personnelle dont jouissent les dirigeants de la Banque d'Angleterre.

Pour la première fois du reste, depuis le commencement de son histoire, la Banque a été gouvernée pendant une série d'années par la même personnalité. Il en est résulté pour cette politique une autorité nouvelle. Aucune Banque Centrale du monde n'a bénéficié d'une pareille continuité de vues.

M. Truptil a apporté à l'étude de ce marché et de ses conditions non seulement techniques, mais psychologiques, un esprit à la fois informé des questions économiques et monétaires générales et au courant, dans le détail, de la vie de la Cité, à laquelle il a participé lui-même pendant de longues années. Bien entendu, cette description où il a

résumé à la fois ses observations personnelles et les enseignements des nombreuses enquêtes qui depuis 10 ans ont été faites sur ce sujet (la principale est le rapport Macmillan de 1931) est faite en gardant toujours présente à l'esprit, l'organisation si différente de la place de Paris. C'est à ce titre qu'elle est particulièrement adaptée aux vues et aux habitudes des lecteurs français et qu'elle présente un intérêt spécial.

M. Truptil nous apprend que la place de Londres était prête au printemps 1933 à revenir à l'étalon d'or. Les plans de la Banque d'Angleterre auraient été dans son opinion contrecarrés à ce moment par l'expérience américaine. Nous ne savons si cette interprétation est entièrement conforme aux faits. Ce qui est certain, c'est qu'à l'heure actuelle le retour à la stabilité monétaire ne dépend pas seulement de la volonté de Londres, mais de la volonté conjuguée de Londres et de New-York. Quand et comment cette volonté prendra corps dans le sens que le monde désire, il est impossible de le prévoir aujourd'hui.

L'une des parties les plus intéressantes du livre est celle où l'auteur décrit la manière dont les banques anglaises ont réagi devant la crise, et dont la Banque d'Angleterre a préparé par une grande aisance monétaire les belles opérations de conversion auxquelles la Trésorerie britannique a pu procéder avec un succès remarquable.

Sur tous ces points, le lecteur trouvera dans le livre de M. Truptil, des renseignements précis et présentés d'une manière toujours suggestive. Le livre constitue une contribution extrêmement précieuse à la compréhension des marchés monétaires actuels.

CHARLES RIST

INTRODUCTION

THIS study is a purely descriptive one. It is proposed to examine the banking organization of London in order to analyse it into its component parts, and then to show how these various elements whilst collaborating together yet serve to complement and counterbalance one another, thus forming a really complete money market.

At first sight the term 'money market' may seem paradoxical. The essence of a market is that it should be a centre where the supply of and the demand for a commodity or for a given service are so adjusted as to arrive at a price, an expression of its value in terms of money. It is necessary to understand the term 'money market' in a sense somewhat different from that suggested by the above definition. A money market is not a market in the strict sense of the word, that is to say a precise centre, market place, street or exchange where prices are fixed through discussion between sellers and buyers. When we speak therefore of the Paris or London Money Market — in spite of the fact that the latter is usually termed 'Lombard Street' after the name of one of the principal streets in the City — we use a term which comprises the whole of the banks and other credit institutions which exist therein.

At the same time we speak constantly of dear money or of money being plentiful; these terms are as incorrect as is that of the money market. If we wish to be precise we should speak of a market for short term credit.

A money market — as opposed to a Stock Exchange or a market for long term credit — is concerned with the provision of credit for short periods. These periods may vary

from twenty-four hours to three months, and only reach six months in exceptional cases.

This short term credit is dispensed essentially by the banks.

We shall therefore study the various institutions which create or sell credit on the London market. We must commence with the central institution which controls the whole of the market and which watches over the destinies of the money in terms of which credits are expressed, the Bank of England. Having done this we shall examine successively the deposit banks, the discount houses, the acceptance houses, and the various types of foreign banks, all of which participate in the money market by bringing either offers of or demands for short term credits, and sometimes both.

Our description is based upon the actual state of affairs which prevailed in the English banking system between 1925 and 1935. This is not the place to trace the origin of the various institutions nor to describe in detail the process of evolution which has led to the elaboration of their different types. It has nevertheless been found necessary to make here and there a résumé of the past, in cases where such knowledge is essential for the understanding of the present situation.

In studying these various institutions we shall attempt to disentangle the essential characteristics of each group, for it is precisely here, in the City of London, that the specialization of banking functions has been carried to the highest degree. Since the war, the distinctions between the different types of banks are perhaps no longer so clear-cut. They remain, however, sufficiently obvious for the banks to be classified without hesitation into their individual groups.

A list of existing institutions has been given for each type of bank which we have considered. These lists have

been compiled in order of importance, as far as that can be ascertained from the balance sheets or from whatever other indications are available in respect of those houses which do not publish a statement of affairs. These classifications are merely informatory, and do not necessarily conform to the relative standing of the houses in question; a house of relatively modest size sometimes enjoys a standing equal or even superior to that of a larger one, by reason of the quality of its management and of the affairs in which it deals.

In addition, we have given for each type of bank a theoretical balance sheet which has been obtained by the amalgamation of all the balance sheets of the principal houses in each category, and by their reduction to a base of one hundred. This serves to make the different policies followed more apparent and renders comparisons easier. It is perhaps necessary to point out that these theoretical balance sheets have been compiled solely in order to facilitate the understanding of our subject and have no claim whatsoever to being considered as ideal – that is to say as model balance sheets whose proportions ought to be followed by all the banks in the group in question.

These balance sheets only express the 'average' of the policies which have been followed by all the banks in the same group. Such policies can of course vary individually in a greater or lesser degree from the average for many excellent reasons.

It has been deemed advisable to follow the study of the banks by a survey of the methods whereby they effect settlement one against the other, and particularly by a description of the London Clearing House which is used to a very large extent to carry out the clearing for the whole of England.

It must be emphasized, that so great is the degree of

centralization, that it is practically impossible to study the London money market without at the same time surveying the banking system of the whole of England. There are practically no independent provincial banks in England. The whole of the deposit banking is largely concentrated into six huge establishments who between them cover the country with a network of branches; whilst all the banks who specialize in the discounting or the accepting of bills, and in new issues, as well as all the foreign banks, are concentrated in the City around the central bank.

To complete this study, we shall finally attempt to convey an idea of the atmosphere of the City of London. These observations on people and things are, in our opinion, of very real importance, if we are to make a live thing out of a series of studies which, by their very nature, run the risk of becoming theoretical and abstract.

A banking system cannot properly be explained by a series of tables and graphs, it remains an organization whereby one set of men endeavour to facilitate the conservation and the circulation of the riches which have been created by other men. All banking problems have a moral and a social side — a human aspect. Who knows if the superiority of English bankers may not turn out to be partly due to the extent to which they have recognized this truth?

Having completed our survey of the banking system, we shall come at last to the more precise study of the money market. In other words, making use of the information obtained and the conclusions arrived at in the course of our study of the banks, we shall turn from regarding the London market as a series of isolated banking groups, in order to consider it as a whole. In this way the disjointed conclusions reached in the first part of the study will be coordinated and completed on a wider synthesis.

In this general survey we shall first indicate how the

Bank of England exercises its control on the volume and price of credit, as well as the limits which are set to this action.

This control by the Central institution is carried out through the most sensitive part of the money market, namely the Bill Market, and this fact impels us to make a study of the resources of this market, and in particular of the liquid funds of the banks and the funds under the control of the discount houses.

We shall then pass in review the different types of bills which constitute the supply of the London discount market: British Government and various other promissory notes, bank bills and commercial bills of exchange. This survey will enable us to estimate with a certain amount of precision the supply and demand of bills on the London market.

Having estimated the importance of the short term money market, and that of the discount market, we shall then be in a position to establish some sort of comparison between the London and Paris markets and to examine the profound differences which separate them, differences which will probably never be overcome. This long description of the banking system of London would, however, be incomplete without an indication of the reactions of the system to the world economic crisis. The events which have succeeded one another during the course of the last few years have provided a remarkable opportunity for testing the resilience of the system. It will be of interest to outline these.

The worst of the crisis seems now to be over and the City remains practically unaltered in appearance. The economic upheaval has however been so great that some alterations are inevitable. We shall therefore in a final chapter attempt to outline the possible courses which these changes are likely to take.

Now that the objects of our study have been clearly defined it will perhaps be as well if, before commencing, we attempt to visualize the City of London in terms of the greater entity of which it is an integral part.

The complete significance of the banking system cannot be properly realized unless we keep constantly before our eyes the body which this blood stream of money and credit is continually nourishing.

Behind the City of London, it is necessary always to imagine the Port of London, Great Britain, the whole Empire.

Geographically, London is a natural centre for the distribution of European merchandize all over the world, and the mart in which the products of remote countries can be accumulated for the purpose of being easily re-exported. The English have made the most of this exceptional situation, which has enabled them to build up their colonial empire and the greatest mercantile marine in the world.

The development side by side of maritime power and of the colonies gave full scope for foreign trade.

Not content with transporting all the products of the globe and with taking possession of the rich countries which produced them, the English commenced to work up these products. Thanks to the abundance of coal which is found in her soil, England, as the world's leading manufacturing nation, was able to build up an industrial organization which has remained without a rival for more than a century.

By reason of her formidable maritime, colonial and industrial development, England accumulated wealth. Her superabundant revenues gave her a surplus which became available for external uses. She habitually invested such funds in the countries she had conquered in order to develop them not only in such fashion that they

could send her still more raw materials, but also to provide a market for her manufactured goods. Finally, outgrowing the demands within the framework of her immense empire she began to invest her capital in new countries like South America, attempting where possible to secure a profitable market for her industries.

Great Britain having, therefore, become the mart of the world, as well as its workshop, it followed logically that the principal world markets for raw materials and overseas products should be established therein, especially in London. The price of metals and textiles were fixed in London just as were those for freight and insurance. Amongst these markets, the gold market assumed a particular importance in inducing England to be the first country to adopt that metal as an exclusive monetary standard. This circumstance has exerted a considerable influence on the credit of England, by associating the idea of gold with that of the pound sterling.

The notes of the Bank of England and all bills payable in sterling have come to be considered by the traders of the entire world as being the equivalent of the yellow metal. This universal confidence was, indeed, justified by the facts for more than a century, up to the great crisis of 1931.

These pages are being written during a particularly critical period for the City of London. The pound sterling has ceased to be a gold coin, and many people have believed that they saw in the English monetary crisis, the first sign of a decline in the banking supremacy of the City.

We believe this to be an erroneous view, for two main reasons. The first is that London's financial supremacy is due to causes, geographic, historic, economic, and moral, whose value and permanence depend but slightly on monetary conditions. The second is that the technical organization of the City is beyond question incom-

parably superior to its rivals — as we hope to be able to convince those who possess the patience to follow us in the study of this complicated, but nevertheless remarkably supple and solid machinery.

We feel that this has been conclusively proved by the single fact that during the whole course of a crisis which has shaken the foundations of world finance, England has not had a single banking failure.

PART I

CHAPTER I

THE BANK OF ENGLAND

THE history of this institution is well known and has been the subject of so many surveys that we do not propose to deal with this aspect here.

We shall, instead, limit ourselves to considering the English theory as to the role of a central bank, and to an examination of the Bank's organization and balance sheet. We shall return later to the study of its essential function as a controller of the money market and of the means which are at its disposal for the enforcement of its policy.[1]

CENTRAL BANKING PRINCIPLES

The Bank of England is almost unique as a central bank, in that it is at the same time a private institution and one which, with the sole exception of the regulations as to its note-issuing powers, is practically independent from all government control.

During the course of his evidence before the Macmillan Committee, Sir Ernest Musgrave Harvey, deputy governor of the Bank, stated that the Bank of England was in actual fact free to carry out any operation which might appear advantageous, with one single exception. This exception is derived from the Tonnage Act of 1694 which prohibited the Bank from employing its funds on any merchandising operations 'in order not to oppress His Majesty's subjects'.

In actual fact the Bank of England has undergone

[1] See *The Bank of England and the Money Market*, Part II, Chapter I.

numerous transformations and its evolution has continued up to the present day. These successive transformations have tended to emphasize more and more its character as a central bank. A series of charters have augmented the control exercised by the Bank of England, whilst defining its duties in connection with the note issue. At the same time, the Bank, by a spontaneous process of evolution, has gradually given up most of its purely commercial operations, developing, over the same period, those operations which have been conducive to its close connections with the money and finance markets, both of England and abroad.

The Bank of England, like the United Kingdom, has no written constitution. With the one exception mentioned above (Tonnage Act), and the strict limits placed by law on her note-issuing powers, such restrictions as the Bank has observed in its operations are restrictions which it has imposed upon itself and which it remains free to modify or cancel should it so desire.

The Bank of England, as it exists and functions to-day, is therefore the result of a slow process of adaptation to the requirements of its financial environment. In conformity with British ideas, the conception of a banking system dominated by a central bank has developed naturally as a result of experience and observation.

This system has frequently been transported, *en masse*, to other countries, either with or without modification. In such cases the system has been adopted as part of a rationalized plan, with regulations which have been very carefully drawn up.

In Great Britain, however, it has been the individual functions themselves which have gradually given rise to the elaboration of that organism which was eventually to regulate them.

It is of importance therefore to analyse these functions in

order to understand better the working of the mechanism whereby they are regulated. British experience in the course of the last century has resulted in separating these functions with particular distinctness, and the theory concerning them is to-day fairly precise. In practical application, however, it has been found wiser to maintain that certain measure of flexibility which, to the English, is an essential condition in the existence of all living organisms.

The English doctrine with regard to the role of a central bank has been explained in a particularly clear manner and with an incontestable authority by Sir Ernest Harvey, deputy governor of the Bank of England, first in a booklet, and secondly in his evidence before the Macmillan Committee. It is upon these pronouncements that we propose to rely in the survey which follows.

The role of the central bank is essentially to maintain the stability of the monetary unit in the best interests of the general community. In other words, it should watch over the maintenance and safeguarding of those central reserves which can assure the integrity of the national monetary system.

Practice has demonstrated that this role involves the central bank in triple functions — as a note-issuing bank, as the bankers' bank, and as the banker to the State. This triple function establishes at one and the same time the duties of the central bank, and the limitations which should be placed or which it should voluntarily place on its activities.

It has become obvious to-day that, in order to act as custodian of the country's money, the central bank must have control over the issue of all monetary symbols. It must, in fact, be the only issuing institution and at the same time it must be the guardian of the reserves which guarantee these symbols, that is to say those reserves of

metal, foreign exchange, or securities which act as cover for the circulating media.

It is also necessary for the central bank to be the bankers' bank. This function permits it on the one hand to control the volume of credit in the form of various kinds of book credits, and on the other hand to reduce the monetary requirements of the banks by acting as their agents in respect of their differences, one against the other, thereby allowing them to settle these differences by means of a simple transfer.

Finally the central bank should be the main banker of the State. The receipt of taxes at certain periods of the year, or the payment of coupons at given dates, might cause sudden fluctuations in the volume of credit and in the value of day-to-day money, were the central bank not able to take the necessary steps to correct these vast movements of funds.

In return, certain limitations are imposed on the central bank. Of these the first and foremost is the necessity for conserving its assets in the most liquid form in order to be able always to respond to the demands of those banks which are engaged in distributing credit all over the country.

In addition it is absolutely essential that the central bank should operate with an eye to the collective interests of the community, and that no considerations of profit should be allowed to weigh in the decisions which it may make. It may even mean that the bank should be prepared to accept certain losses if necessary. These considerations result in preventing the central bank from paying interest on the deposits which it receives, thus lessening its charges.

This constant care for the general welfare of the community necessitates, according to Sir Ernest Harvey, the complete independence of the bank with regard to all possibility of political pressure. No political control, either

direct or indirect, should be exerted on the central bank. In particular, the nomination of the Governor should not be in the hands of the Government. The bank should therefore carefully avoid being affected by internal political pressure and still more by pressure from abroad. In order to avoid this latter, it is of importance that the bank should be in close and cordial relationships with the central banks of other countries.

The same considerations should animate the bank in abstaining from direct competition with the other banks in respect to ordinary commercial banking operations. This is axiomatic, in the first place because it would be unfair that the central bank should receive from other banks a considerable proportion of their funds, and should use these funds competitively; and secondly because the central bank should be a refuge for the banks in times of stress. If the central bank were to carry on the same operations as the other banks, there would be a risk that it would not be in a position to grant the necessary assistance at a moment when by reason of a crisis some intervention was necessary.

The evolution of the Bank of England in this connection is of particular interest, as it is on this point that the English theory is most sharply in conflict with the French tradition.

In its early years at the end of the seventeenth century and during the eighteenth, the Bank of England was a commercial bank. It has, during the course of its history, dealt to a very great extent in the same types of operations as are carried on to-day by the great deposit banks. This characteristic was also maintained to a certain degree during the nineteenth century; as, however, the big deposit banks were founded and developed in England, the central bank showed a tendency to abstain more and more from

any operations which might compete with these new institutions.

At the present moment the Bank of England has still a special clientele in the commercial and industrial world, but does not encourage the development of their operations, and in the words of Sir Ernest Harvey, 'they let this commercial policy die a natural death'.[1]

The official point of view is therefore to close down progressively all such operations which might equally well be done by the other banks, retaining however at the same time the complete liberty of the central bank, in theory, to engage in such operations. 'They should have a liberty which they should not necessarily exercise.'[2]

Who then, are the clients of the Bank of England outside the State and the banks? First the discount houses, each of whom ought to have an account with the Bank of England, as they constitute in the view of the deputy governor, 'An absolutely essential and vital part of the machinery'.[3] Secondly, the issuing houses and other finance houses with whom it is advisable, in the interests of the market, that the central bank should be in close touch. To these should be added, since the war, the foreign central banks with whom it is advisable for the central bank to keep in close relationship, in order to alleviate the effects of violent variations which might arise in the balance of payments between two countries, or to cancel out the effect of such variations when they appear to be of a transitory nature.

Finally, some clients remain who are, in the view of the Bank of England, not in the least indispensable in the exercise of its functions, but yet are useful in its scheme of things. Such are the insurance companies, some stock brokers (who have an especial interest in keeping an

[1] 'Macmillan Evidence,' Q. 23 to 26. [2] Ibid, Q. 33.
[3] Ibid, Q. 39.

account in the Bank of England, as they obtain exceptional conditions of safety for the housing of their securities), and finally numerous commercial houses. For the majority of these latter, the reason for having an account with the Bank of England is largely a sentimental one. Such accounts have, for the most part, very little movement, the depositors carrying out elsewhere their real financial operations.

The difference between the Bank of England and the Bank of France can be pointed out once more by recalling the fact that in place of the five hundred branches, agencies, and offices of the latter, the Bank of England has only nine branches, namely at Manchester, Birmingham, Bristol, Liverpool, Leeds, Newcastle, Hull, Plymouth and London (Law Courts Branch). At the close of the last century these branches were actively engaged in commercial banking operations in their districts, just as any other bank. To-day they do little more than collaborate with the local clearing houses. They receive, in addition, certain funds for the Government, they serve to distribute cash and to retire from the circulation such coins and notes as are old and defaced, and they carry out sundry other monetary functions. In order finally to emphasize its desire to maintain the role of a central bank, the Bank of England in 1930 transferred one of its London branches to the Royal Bank of Scotland. (A Scottish bank was chosen for this occasion in order to avoid the risk of being accused of favouring one of the great London banks to the detriment of the others.)

Knowing now the doctrine, the theoretic principles which form the unwritten statutes of the Bank of England, it remains for us to examine its practical organization and to review its actual operations.

ORGANIZATION

The organization of the Bank of England can be traced in the terms of the Charter of 1844, the supplementary Charter of 1892 and the Act of 1928.

The capital of the Bank of England amounts to £14,500,000. This capital is divided amongst 14,000 shareholders. Anyone can be a shareholder – even a foreigner or a financial house. There is no risk, however, of the control of the Bank passing into the hands of foreigners or of other banks, owing to the fact that each shareholder, who must have a minimum of £500 stock in order to vote, has only one vote even if he controls £500,000 worth of stock. It would therefore require the conspiracy of a very large number of shareholders to take over the control. The owners of £500 of the stock of the Bank of England are, in theory at least, able to control its destinies. This latter is in practice carried out by a board of directors and by committees.

THE COURT

The board of directors known as the Court of the Bank of England is composed of a governor, a deputy governor and twenty-four members.

In theory the Court is appointed by the shareholders, but in practice the new directors are recommended by the Court, and this co-optation is simply confirmed by the votes of the shareholders. A certain number of the directors retire at the end of each financial year. By courtesy it is usually the youngest members who resign and are usually re-elected automatically. In the ordinary way the new directors are young men, chosen mainly from the partners of the old merchant houses of the City. Here, for example,

is the composition of the Court of the Bank of England in January 1935, with an indication as to the principal activities of each director.

COURT OF THE BANK OF ENGLAND
(*January* 1935)

Governor: The Rt. Hon. Montagu C. Norman (late partner in Brown Shipley, merchant bankers)

Deputy Governor: Sir Ernest Musgrave Harvey (risen from the ranks of the Bank of England)

Sir Alan Garrett Anderson (director of railway and shipping companies)

Sir Basil Blackett (late Treasury official, director of cable and wireless companies and various South African diamond and explosives companies)

George Macaulay Booth (director of shipping and engineering companies, and chairman of various companies in Brazil)

Basil Gage Catterns (risen from the ranks of the Bank of England)

William Henry Clegg (late official of the Bank, and late governor of the Reserve Bank of South Africa)

Patrick Ashley Cooper (governor of the Hudson's Bay Co., and director of several companies in the Argentine)

Sir Andrew Rae Duncan (chairman executive British Iron and Steel Federation)

Albert Charles Gladstone (partner in Ogilvy Gillanders & Co., East India merchants, director of Northern Assurance and Ottoman Bank)

Kenneth Goschen (partner in Goschens & Cunliffe, merchant bankers, director of the Bank of Australasia and Borholla Tea)

Edward Charles Grenfell (partner in Morgan Grenfell & Co. Ltd., merchant bankers, and director of insurance companies)

Charles Jocelyn Hambro (director of Hambros Bank, merchant bankers, vice-chairman Great Western Railway, director Mercantile Bank of India and insurance companies)

Col. Lionel H. Hanbury (director of hop merchants and of insurance companies)

Edward Holland-Martin (son of a director of Martins Bank)

Lord Hyndley of Meads (director of coal companies)

Sir Robert Molesworth Kindersley (chairman of Lazard Bros., merchant bankers, director of investment trusts, and of S. Pearson, merchant bankers)

The Hon. Roland Dudley Kitson (chairman and director of steel, iron, coal, and motor car companies, deputy governor of London Assurance)

Cecil Lubbock (chairman of the Bank of New Zealand, director of brewing and insurance companies)

Robert Lydston Newman (director of wine and import companies)

Sir Edward Robert Peacock (managing director of Baring Bros., merchant bankers, director Canadian Pacific Railway and Hudson's Bay Company)

Hon. Alexander Shaw (chairman and managing director of Peninsular & Oriental Steam Navigation Co., director of other shipping and tea companies)

Sir Josiah Stamp (chairman of L.M.S. Railways, director of various transport, wharfinger and building companies)

Frank Cyril Tiarks (partner in Schroeder, merchant bankers, chairman Sao Paulo Coffee Estates, director of Anglo Iranian Oil)

Walter K. Whigham (partner in Robert Fleming, merchant bankers, director of many investment trusts, London & North Eastern Railways and insurance companies)

Arthur Whitworth (director of the Bank of Australasia, of Brazilian and Malayan companies, and of insurance companies)

The new directors are, as we have said, usually young men. Bagehot tells of his great surprise when he met 'a very fresh and nice looking young gentleman', and learned that he was a director of the Bank. His surprise was accompanied by some fears which were subsequently proved to be groundless. In addition to the fact that the Court chooses its new members with the greatest care, old established custom has provided that there shall be a majority of members of the Court who, over a term of years, have acquired some considerable experience in the affairs of the Bank.

The Offices of Governor and Deputy Governor

In principle, the Court elects from amongst its members, every two years, in order of seniority, a governor and a deputy governor. As a general rule these are never re-elected when their term of office has expired. Each director has thus a chance of becoming governor about twenty years after his first election to the Court. Since the war, the traditional customs of the Bank have been rudely shattered by the exceptionally strong personality of the existing governor, the Right Honourable Montagu Collet Norman — or in short Montagu Norman.

In the first place he has been retained in the governorship without interruption since 1919. This permanence in

the executive was undoubtedly necessary to assure a continuity of policy with regard to the problems of the return to the gold standard, and of the absorption and guarantee by the Bank of England of the Treasury Notes which had been issued by the Treasury since the commencement of the War. This continuity of policy would not appear to have been any less important both during and since the crisis of 1931. Some aspects of this stability will no doubt remain when normal conditions return once more. As long ago as 1873 Bagehot (who is quoted constantly owing to the fact that his book *Lombard Street* still remains surprisingly up to date) discussed in detail the disadvantages which were inherent in the practice of changing the governor and deputy governor every two years. Nevertheless he recognized the danger of a governor elected for life (the overwhelming authority which would be wielded by such a 'king' of the City and the risk that such an office would fall into the hands of people who would seek the honours of the office without being able to safeguard the functions), but he saw the solution to the problem in the choice of a permanent deputy governor. The example of Montagu Norman has provided a different solution, namely, the periodical re-election of the governor over a fairly long period. This solution has the advantage that it can be tacitly adopted without actually changing any of the existing customs. It is, in this way, perfectly in conformity with British traditions.

Recruitment of Directors

There are other matters with reference to which the ancient customs of the Bank have been broken, notably in connection with the provision of new directors. In the first

place a number of the newest directors are not young men at all. They are, on the contrary, men of mature age and vast experience. Secondly, the circle from which they are recruited has been enlarged; we find sitting on the Court, not only Sir John Gordon Nairne and Sir Ernest Harvey, who have spent their lives in the interior service of the Bank, but also Sir Josiah Stamp, president of the London Midland & Scottish Railway and a well-known economist. In addition to this, the election of Sir Charles Addis in 1921 broke the tradition which prohibited a banker (chairman of the Hongkong & Shanghai Banking Corporation) being elected to the Court of the Bank. This last was a reform which Bagehot had long since advocated. The reason given for this exclusion was that the heads of the great deposit banks were competitors of the Bank of England and could not therefore take an impartial view of its interests. This reason might possibly have held good in the eighteenth century but was already out of date in 1873 when there were already many people who no longer regarded the Bank of England as being similar to the other commercial banks. It is a reason which is entirely groundless to-day. There was therefore no objection to Mr. Edward Holland Martin, of Martins Bank, joining the Court in 1934.

In going through the list of directors over a long period one is impressed by the high proportion who belong to merchant banking houses. This is indeed an old tradition and several of these houses appear to have won a sort of dynastic right to be represented on the Court. Of all records of association with the central institution, Barings is by far the most impressive. Ignoring its temporary retirements for a year or two in rotation, we find the following list of representatives of the House of Baring on the Court of the Bank.

Alexander Baring	from 1805 to 1817
H. St. John Mildmay	from 1827 to 1849
Thomas Baring	from 1848 to 1867
E. Charles Baring (1st Lord Revelstoke)	from 1879 to 1891
John Baring (2nd Lord Revelstoke)	from 1898 to 1929
Sir Edward R. Peacock	since 1929

The house of Grenfell, now merged into Morgan Grenfell, has also had over a century of association with the Bank of England through:

Ch. Grenfell	from 1830 to 1864
H. R. Grenfell	from 1865 to 1902 (deputy governor 1879-81, governor 1881-83)
Ed. Ch. Grenfell[1]	since 1905

Similarly we could trace the Goschens' association with the Bank as far back as 1858, and that of Hambro to 1879. Seven houses are represented in 1935. Of those who are not at present represented, Fr. Huth had a seat on the Court from 1838 to 1885 and from 1892 to 1921; Arbuthnot & Latham enjoyed the same privilege from 1838 to 1878 and from 1884 to 1928; whilst Antony Gibbs had the unique honour of providing the Bank with two governors within half a century.

More recent are the representation of Lazard Bros. by Sir Robert Kindersley since 1914, and of Schroeder by F. C. Tiarks since 1912.

It must of course be understood that there is no question of a firm having any kind of right to such representation. It is an old tradition and one easily understood if we consider the personal credit and the position occupied in

[1] Now Lord St. Just.

national and international trade by the partners of the merchant banking houses.[1] It explains, however, up to a point, the periodically renewed attacks on the Court which in some quarters is accused of being 'a close corporation with its eyes too exclusively on City interests'.

A careful survey of the other directorships held by the directors of the Bank show that insurance, railways and shipping have for long been very strongly represented, but that textile, mechanical and other industries have had relatively few representatives.

In a general way it would appear that care has been taken not to elect persons whose interests are limited to one definite section of trade or industry, hence the high proportion of merchant bankers.

Full Time Directors

Another new development at the Bank of England has been the appointment of full time directors, that is to say of directors who give the whole of their time to the Bank. We believe that the first case was in 1914 at the outbreak of the War. The duties which then fell upon the governor were so heavy that the directors had to give more than their usual collaboration and for a while Mr. Montagu Norman came from his firm to the Bank.

More recently Mr. Charles Hambro was for two years, 1932-34, a full time director concerned with the working of the Foreign Exchange Equalization Account, and since he has relinquished this part of his duties, Messrs. Clegg and Holland-Martin have been acting as full time directors.

[1] A somewhat similar situation exists in France where Rothschild, Lazard Frères, and the various firms of the so-called 'Haute Banque protestante' are represented on the *Conseil de Régence de la Banque de France.*

THE COMMITTEES

A Court of twenty-four members lacks both flexibility and rapidity of decision, and a great deal of the work is therefore done by committees. The Court itself meets each Thursday at 11.30 a.m. It is at these meetings that the decision is taken as to any alterations which may be made in the discount rate of the Bank, a decision which is usually announced about midday. It has been jokingly said that the Court does not go in for long sittings, as the City would very rapidly become firstly curious, then anxious, and finally disquieted, and that a four hours' sitting would be sufficient, by its duration alone, as well as by the speculations to which it would give rise, to start a panic. The work of the Court is therefore prepared in the committees.

Under the title of the Committee of Treasury, the Bank possesses a real governing committee, consisting of nine members of which the governor and deputy governor are *ex officio* members, the remainder being elected by the Court by secret ballot. It is usual for the retiring governor to be elected a member of the Committee of Treasury, as in this way his advice and the experience which he has gained in the exercise of his post are assured to the Bank. The Committee of Treasury collaborates closely with the governor, and is concerned especially with the general policy of the Bank, as, for example, such matters as alterations in the discount rate, or the relationship of the Bank with the Government.

A 'Committee of Daily Waiting' is formed by three directors who attend in rotation. This committee, which meets each day at 11.30 a.m., deals with current affairs; in particular it makes a test of the bills which are brought forward for discounting.

Other committees deal with legal questions (Lawsuits Committee), with branches, and with the interior organization. Finally, the Bank having no auditors (all other English companies have to submit their accounts to auditors) they are replaced by a Committee of Inspection for the cash and another for the book-keeping.

Under the supervision of these committees, the twenty-seven or eight departments of the Bank are managed by a number of permanent officers who constitute a sort of corps of officials. At their head is the comptroller, who attends all committees and acts as liaison officer between the Court on the one hand, and the officers and employees on the other.

Finally, as a result of quite recent developments, the technical advisers must be mentioned. These officers (such as Sir Otto Niemeyer or Mr. H. Clay) deal with such matters as the relations of the Bank with foreign central banks, with rationalization of industry, and with questions of general economic interest.

Without taking into account the printing works which is attached to it, the Bank, which before the war employed about a thousand persons, now has close on four thousand employees.

In order to explain the importance of this personnel, Sir Ernest Harvey informed the Macmillan Committee that government, colonial and municipal funds mean, for the Bank of England, more than three million separate accounts for inscribed stock, as well as a considerable quantity of bearer bonds, and from nine hundred thousand to one million transfers per annum.

THE TWO DEPARTMENTS

Since the Act of 1844 the Bank of England has been divided into two entirely distinct departments, one for the

issuing of notes and the other for ordinary banking business. This separation is emphasized by the weekly statement of the Bank, which gives separate figures for the Issue Department and for the Banking Department.

We have here a further characteristic trait of the Bank of England. No other bank of issue makes such distinctions. The framers of the 1844 Act thought fit, however, to insist upon this separation of departments in order to make it clear that the Bank was strictly observing the regulations which that Act imposed upon it in respect to the note issue. Financial journals frequently publish combined balance sheets in which the figures of the two departments are amalgamated. We consider it preferable, however, in this study, to maintain the traditional subdivision, which gives at least some clarity to a document which is frequently enough somewhat obscure.

ISSUE DEPARTMENT

For nearly a century the Bank of England has been the only joint stock company in England and Wales with the right of issuing notes.

Created, in the first place, to assist the finances of the State, it naturally enjoyed the protection of successive governments, and acquired, little by little, the practical monopoly of note issuing in London, as well as a privileged position as a deposit bank.

During the nineteenth century, in 1826, 1833 and 1844, the somewhat excessive privileges which the Bank had enjoyed were limited both in fact and in law, but it obtained in return the definite monopoly of the note issue.

The 'Constitution' of the Bank of England still remains the 1844 Charter, with the addition of the various modifications which were introduced by the 1928 Act. The 1844

Act provided for the extinction of the rights of other banks to issue notes, either by voluntary action, or by an alteration or amalgamation of the issuing bank. Since 1921 the Bank of England has indeed been the only note issuing bank in England and Wales, and its notes alone are legal tender.

In Scotland the eight deposit banks which still remain have each the right of note issue. They can issue notes for a fixed fiduciary amount, any surplus being covered by a deposit of an equivalent amount of legal tender. These deposits are entrusted either to a special office or to the Bank of England. A similar situation exists in Northern Ireland. The following figures published in the Macmillan report show the quasi-monopoly which the Bank of England indirectly possesses in these countries:

	Authorized Fiduciary issue	*Average Circulation*	*Average amount of notes of the Bank of England retained as cover*
Scotland	2,676,000	20,000,000	17,324,000
Ulster	1,634,000	8,800,000	7,166,000
	£4,310,000	£28,800,000	£24,490,000

If we wish to calculate the total note circulation in Great Britain, it is necessary to add the notes of the Scottish and Irish banks to those of the Bank of England and to deduct the total of the notes which are held in cover, as explained above. We find from this, that speaking practically, the Scottish and Irish note issues are of no great importance.

Having made these remarks, let us examine the weekly statement published by the Bank, as it appeared up to November 1928 and as it has appeared since that period.

Here, for example, is the statement of the Issue Department for July 22nd, 1914:

BANK OF ENGLAND

An account for the Week ended on Wednesday, July 22nd, 1914

Issue Department

Notes issued	£57,914,410	Government Debt	£11,015,100
		Other Securities	7,434,900
		Gold coin and bullion	39,464,410
	£57,914,410		£57,914,410

The assets covering the note issue include the following:

(a) *Government Debt.* The origin of the debt dates from the foundation of the Bank, which obtained its Charter in 1694 in return for a perpetual loan to the Government of its original capital of £1,200,000. Over the period of 150 years which separates the first Charter from that of 1844, a series of loans to the Government, accompanied by parallel increases in the Bank's capital, brought the figure of the Government debt up to £11,015,000, at which figure it has remained unchanged. This is the *Funded Debt.* There are no securities in existence in respect of this government liability. A simple inscription in the records of the Treasury confirms the existence of this debt, upon which the State pays to the Bank interest at 2½ per cent per annum. In actual fact that portion of the note issue corresponding to this sum, is in reality a note issue of the State.

(b) *Other Securities.* The 1844 Act authorized a fiduciary issue of £14 millions, that is to say £2,984,900 more than the Funded Debt. It gave further to the Bank of England the right to take over in part the note-issuing powers of other banks as these lapsed. The 'other securities' have in this manner been successively increased until they finally reached the sum of £8,734,900 in 1921, on the absorption by Lloyds Bank of Fox Fowler & Co. of Wellington, Somerset, the last bank to compete with the central bank in the matter of note issues in England.

The detailed choice of the assets figuring under this heading of 'other securities' was left by the 1844 Act to the entire discretion of the Bank, the sole restriction imposed being, as we have said, that of the Tonnage Act of 1694 which prohibited the Bank from engaging in any operations with respect to merchandise; we may surmise that this restriction has been taken to include also the shares of companies which engage in such operations. Outside this, the Bank has complete liberty to include what it likes under this item of 'other securities'. It is under this heading that the Act of 1928 contemplates the possibility of placing commercial bills. The foreign currencies and foreign securities acquired by the Bank in 1932 materially assisted in swelling this figure. It is interesting to note, that if during the period of non-convertibility of the pound, the Bank purchased gold at a market price differing from the legal purchase price, and used it under the heading of 'other securities', it might perhaps be argued that it had engaged in one of those operations in merchandise prohibited by the Tonnage Act of 1694.

By adding together the 'Government Debt' and the maximum authorized for 'Other Securities' under the 1844 Act, we find that the limit of the fiduciary issue reached £19,750,000 in 1921. Over and above this figure every note issued had to be covered by gold.[1]

The English monetary system was therefore remarkable for its inelasticity. This rigidity was such that the 1844 Act had to be suspended on several occasions when crises of one kind or another increased the demand for liquid funds.

This happened, on the first occasion, in 1847, on the occasion of the collapse of the Exchange Banks, who had been speculating in railway securities and who had been

[1] The Bank had in fact the right to constitute one quarter of its metallic reserve in silver Silver coins not being full legal tender, this provision has, therefore, not been effective.

ruined by the fall in the prices of the shares. The second occasion was in 1857, on account of the misuse of accommodation paper created during the trade depression following on the Crimean war. Then in 1866 a panic was caused by the failure of the discount house of Overend Gurney & Co., whose engagements were approximately eighteen and a half million pounds. This house, which had been founded in 1779 and which had for a long time enjoyed a reputation almost equal to that of the Bank of England, failed owing to having used in long-term speculative operations in American securities, the very large sums which it had received on sight deposit. English credit was so gravely affected by this crisis that the Bank Rate remained at 10 per cent for three months.

In these three instances the 1844 Act had to be suspended by Parliament in order to lift the ban imposed upon the amount of the note issue. This measure sufficed to restore confidence again, and only once, in 1857, was the Bank compelled to issue notes to the extent of one million pounds over the legal maximum.

In 1890 the prompt action of the Bank of England prevented the failure of the old established and powerful firm of Baring which found itself in temporary difficulties by reason of imprudent lock-up investments. It was not necessary, however, to suspend the 1844 Act. Since then, on several occasions, especially in 1907, the Bank of England, observing that the volume of requests for the redeeming of its notes was increasing in a disquieting manner, was able to make arrangements with the Banque de France, whereby the latter agreed to send gold over temporarily. By reinforcing its metallic reserve in this manner, the Bank was able to avoid Parliamentary assistance.

Thus a policy of collaboration between central banks

was already taking shape, a policy which was to be largely developed after the war of 1914-1918.

It is of interest to note that during the war the gold payments of the Bank of England were never formally suspended, as was the case with most of the belligerents. The Defence of the Realm Acts prohibited both the minting of gold coin and either offering or demanding a premium for metallic money. In spite of the fall of the pound as expressed in the currencies of neutral countries, there was no depreciation inside the country. Theoretically the notes of the Bank were always redeemable in gold, but in the very rare cases where gold was claimed from the Bank, the latter called for proof that the gold would not be minted, exported, or sold at a premium. Gold payments were thus, in practice, suspended.

In 1925 the pound climbed back to par, and the return to the gold standard was officially announced by the Gold Standard Act. This act did not re-establish gold in circulation again, but enacted simply that the Bank of England should redeem its notes in ingots of gold, containing approximately 400 ounces troy of fine gold. In other words the convertibility of the notes was in practice limited to units of about £1700 each. As a result of this, between 1925 and 1931 when the gold standard was abandoned, the Bank of England only lost gold to exporters of the metal and then only at such times as they were unable to satisfy their requirements in the open market.

The abandonment of the gold standard on September 21st, 1931, which was brought into effect by the Gold Standard (Amendment) Act of September 25th, was even more complete than during the war, owing to the fact that this time the convertibility of the notes was suspended.

In order to complete this short review of the monetary history of England since the Bank Act of 1844, mention

must now be made of an additional currency created during the war.

The lack of elasticity in the regulations governing the issue of notes by the Bank of England, made it necessary in 1914 to create a new form of money, in order to satisfy the rising demand for cash, and to replace the sovereigns and half-sovereigns which were being promptly hoarded. The Treasury therefore issued notes in denominations of one pound and ten shillings known as Currency Notes. This new circulation was almost entirely a fiduciary one, its cover being made up for the most part of Government Securities, and, for the balance, by notes of the Bank of England.

This circulation of currency notes survived the war and in March 1928, the English monetary situation was as follows:

CIRCULATION ON MARCH 29TH, 1928

	£
Bank of England notes	177,004,415
Currency notes	288,248,557
	465,252,972
Less Bank notes used as cover for Currency notes	56,240,000
	£409,012,972

We find, therefore, two separate and parallel note issues, the one almost entirely covered by a metallic reserve and the other almost entirely fiduciary. In spite of this, they were both legal tender, and both of the same value, owing to the fact that they were freely interchangeable.

The Act of November 1928 brought about the amalgamation of these two issues, still preserving however the principle of the 1844 Act. The limit of the fiduciary issue was raised from £19,750,000 to £260,000,000 in order to enable the Bank of England to absorb the currency notes

and to replace them by its own notes. At the same time, the Bank, which prior to this date, could not issue notes in lower denominations than £5, was authorized to issue notes in denominations of 10*s*. and £1.

The balance sheet of the Issue Department is now as follows:

BANK OF ENGLAND

An account for the week ended on Wednesday, July 15th, 1931

	£		£
In circulation	358,913,277	Government Debt	11,015,100
In Banking Dept.	65,077,749	Other Government Securities	232,239,169
		Other Securities	12,656,273
		Silver Coin	4,089,458
		Amount of Fiduciary Issue	260,000,000
		Gold Coin and Bullion	163,991,026
	£423,991,026		£423,991,026

The liabilities are recorded in two figures, the amount of the actual circulation, and the amount of notes held in the Banking Department, that is to say the reserve which this latter department possesses in order to meet its engagements at sight.

On the assets side we find the heading of 'Government Debt' unchanged. Next comes the heading 'Other Government Securities'. These securities include a large proportion of Treasury Bills which were transferred to the Bank by the Treasury when the former agreed to absorb the currency notes and to increase its own circulation. An increase of £232 millions corresponded to the currency notes which were in active circulation, the currency notes covered by Bank of England notes having been cancelled.

The heading 'Other Securities' has been already analysed, whilst the heading of 'Silver Coin' includes silver pieces similar to those in circulation.

These first four headings represent the cover for the fiduciary issue, whilst the last heading, 'Gold coin and bullion', when added to the fiduciary issue, indicates the limit to the possible note circulation. All notes created over and above the authorized fiduciary issue have to be covered entirely by gold. This appears, at first sight, to be a system similar to that laid down in the Act of 1844.

Although the 1928 Act has maintained the principle of an issue whose maximum figure is governed by the size of the metallic reserve, it has applied two correctives to the inelasticity of the system.

First, the authorized figure of the fiduciary issue (£260,000,000) should permit the maintenance of an ample reserve under normal conditions, and secondly if this reserve, in spite of its initial sufficiency, should show signs of dwindling in an alarming manner, the Bank of England can increase the limit of the fiduciary issue on the simple authorization of the Treasury. This authorization is given by the Treasury for three months; with the possibility of renewal[1]. The authorization of Parliament is not necessary unless this increase in the fiduciary circulation has been maintained for a period of two years.

We observe that, contrary to the practice in France, those notes of the Bank of England which are not covered by the metallic reserve are almost entirely covered by obligations of the Government, and in no case by commercial bills. The only bills of this nature which the Bank possesses are in the Banking Department, which we shall now proceed to study.

[1] It was thus raised from £260,000,000 to £275,000,000 from August 1931 to May 1932

Let us examine the statement of July 15th, 1931:

BANKING DEPARTMENT

	£		£
Proprietors' Capital	14,553,000	Government Securities	30,020,906
Rest	3,514,470		
Public Deposits	15,676,264	Other Securities:	
Other Deposits:		Discounts and	
Bankers £66,429,340		Advances £7,406,783	
OtherA/cs 33,704,790		Securities 30,164,315	
	100,134,130		37,571,598
		Notes	65,077,749
7 days and other bills	1,257	Gold and Silver Coin	1,208,868
	£133,879,121		£133,879,121

Liabilities

On the liabilities side we find the debts of the Bank, capital, reserves, deposits and bills payable.

(*a*) Proprietors' Capital. This heading does not call for any special observations. We have already noted that the original capital of the Bank was £1,200,000 and that it was augmented on several occasions and fixed at its present figure in 1844.

(*b*) Rest. This somewhat strange heading covers the reserves and undivided profits. It was not until 1772 that the Bank began to accumulate a reserve. This reserve is now maintained traditionally at a minimum of £3,000,000 and the surplus represents distributable profits.

We next come to a consideration of the Bank's liabilities towards its clients, such liabilities taking the form of deposits and bills.

(*c*) We can pass rapidly over the last heading of '7 days' and other bills'. This figure, which is of very little importance, concerns a system which has fallen into abeyance, namely promises to pay at seven days' sight, either to a given person or to his order. These bills were created during

a period when the roads of the country were not too safe, and the delay of seven days gave the traveller, who had been robbed, the opportunity to make the necessary notification.

The deposits of the Bank of England are grouped under three headings which correspond to the Bank's triple functions as the banker of the Government, as the bankers' bank, and as an ordinary bank.

(*d*) Public deposits. As the banker to the Government the Bank of England receives the taxes, and arranges for the payment of the national charges. It makes, when necessary, advances to the Treasury[1] and superintends for the Treasury the issue of the Treasury Bonds and Treasury Bills, as well as of all Government loans. It watches over the service of the National Debt, and generally speaking acts as the financial agent of the Government.

This role makes it necessary for the Government to keep large accounts with the Bank. Public deposits, therefore, represent the credit balance of the Treasury accounts, and of other accounts authorized by the Treasury, such as that of the Commissioner of the Public Debt.[2]

The movements in this figure of 'public deposits' are followed with very great interest. The average figure is about £15,000,000 but fluctuations are frequent on account of the ingathering of taxes or of large disbursements, such as the payment of the coupons on Consols or War Loans.

(*e*) Bankers' deposits. This item refers exclusively to those English banks whose principal activities are in England. It corresponds to the role of the Bank as the bankers' bank. The clearing bankers settle their daily differences by transfer between these accounts.

[1] These advances are never very large and are of an essentially temporary character.

[2] In the summer of 1935 it would appear from the abnormal increases in the figures of these Public Deposits, that the Exchange Equalization Account sterling balances were partly kept with the Bank of England.

There is an especial interest in knowing the total of the bankers' balances with the Bank of England. The banks are accustomed to keeping, in a general way, a roughly constant ratio between their sight assets[1] and their remaining assets, and also between their sight assets and their total deposits. We can therefore say that the variations in the amount of bankers' credit available are proportional to the fluctuation of the totals of 'bankers' deposits' at the Bank of England. This rule is subject to exceptions when the half-yearly balance sheets are being compiled, and also in periods of crisis when, for one reason or another, the banks increase abnormally the total of their assets at sight.

(*f*) Other deposits. These deposits include those of the English banks whose principal activities are in the Dominions (including the Bank of Ireland) or abroad, as well as those of foreign central banks, colonial banks, merchant bankers, discount houses, issuing houses, the Indian government, colonial governments, dividend accounts for securities which are administered by the Bank of England but which are not a direct charge on the British government (colonial and municipal loans), accounts opened by authorities other than the Government (Egyptian Debt, Agent-General for Reparations, etc.), and lastly the accounts of the Bank of England's private customers.

The bills which the Bank purchases for account of its clients and holds on their behalf, do not, naturally, appear amongst the assets of the Bank. During the course of the Macmillan inquiry it was remarked that the Bank was particularly liable to sudden demands for rediscounts as a prelude to the withdrawals of deposits by foreign central banks who had acquired Treasury bills or bank

[1] These sight assets consist of till money and balances with the Bank of England, both of which items are also kept in a fairly constant ratio to one another. See p. 94.

bills. It was stated that it might therefore be interesting to give some publicity to the holdings of Bills for account of foreign banks, and to their fluctuations, as is done by the Federal reserve banks.

Assets

Having examined the liabilities, let us now look at the various items which comprise the assets of the Bank. They are grouped in the statement under four headings: Government securities, other securities, notes, and gold and silver coin.

(*a*) Government securities. The securities under this heading are limited to the direct obligations of the British government. They include 'Gilt Edged', Treasury Bills which the Bank has purchased on its own account (that is to say those which have not been presented to the Bank for discounting) and temporary 'ways and means advances' made to the Exchequer. This inclusion of these advances with the government securities and with the Treasury bills which the Bank buys freely, makes it impossible to follow the advances which are made by the Bank to the Government.

(*b*) Other securities. This heading was for a long time as obscure as the *Divers* heading in the balance sheet of the Bank of France, but having been divided into two sub-headings since November 1928, it has become much more comprehensible.

(1) Discount and Advances. This heading is composed entirely of the commercial bills and Treasury bills which the Bank has discounted at the request of its clients, together with the advances made to the money market — the bill brokers — and to the Bank's own customers.

Such advances are covered by the deposit of first class bills or securities with a margin of 5 per cent.

The fluctuations in this figure enables us to follow fairly closely the extent to which the money market has been assisted by the Bank (or, to use the current colloquialism, to what extent *the market is in the bank*), especially at the end of each quarter, the discounts and advances to other customers being of relatively small importance. As a general rule these discounts are made at bank rate, although the Bank reserves the right to charge market rate to any particular customer who wishes to discount a bill. There are no hard and fast rules as to the bills which can be brought forward for discount, but the usual practice is that such bills should carry at least two approved British signatures of which one should be the acceptor, and that they should not have less than 14 days to run before maturity, their average duration being at least 21 days.

Advances made to the money market are for a minimum period of eight days and at a rate of 1-2 per cent over the Bank rate.[1] The advances made to other customers can be at different rates and for different periods.

(2) Securities. Under this heading are included securities other than government issues. These securities sometimes carry the governmental guarantee and sometimes not. They may include Indian, colonial, foreign, or sundry securities such for example as the Young Loan, but in no case do they include ordinary shares. Under this heading are also included the commercial bills which the Bank has purchased for its own account.

It appears possible that the securities included in this item are kept at a figure lower than their market value, thus forming a hidden reserve.

[1] When the market is heavily in the Bank, the penalty may be increased by the Bank insisting that further advances will only be made for ten days or more.

(*c*) Notes. This item consists of notes which have been issued by the Issue Department but which have not yet gone into circulation. They appear simultaneously on the assets side of the Banking Department and on the liabilities side of the Issue Department.

(*d*) Gold and Silver Coin. This item is composed almost entirely of silver coin.

The total of the last items, 'notes' and 'gold and silver coin' constitutes the *Reserve* of the Bank of England, the amount of ready funds which it has available to meet positive withdrawals of deposits. By positive withdrawals, we must understand those which do not result sooner or later in a transfer from one account to another, or more precisely, those withdrawals which correspond to losses of cash (notes or specie) or of gold ingots.

We shall discuss later the details of this mechanism, but it is easy to see that holiday periods, when the demand for money is greater, cause a falling off in the reserve, a falling off which is temporary only and which will correct itself rapidly. This readjustment will not, however, happen if the lowering of the reserve is caused by exports of the yellow metal, as in this case the reduction will be of an enduring character.

It would be, for all practical purposes, impossible to allow this reserve to fall to nothing. A continued fall in the reserve makes it essential to adopt the necessary measures of protection which are: first to raise the bank rate in order to preserve gold stocks; and secondly in the event of this measure proving insufficient, to raise the limit of the fixed fiduciary issue.

Thus, at the time of the crisis in the summer of 1931, when, in spite of the raising of the bank rate from $2\frac{1}{2}$ per cent to $4\frac{1}{2}$ per cent, the reserves tumbled to £32,000,000 at the end of July, the Bank asked the Treasury for

authority to increase the limit of its fiduciary issue by £15,000,000 in order to give a larger margin to its reserve and to increase its ratio.

The 'ratio' is the proportion which the reserve bears to the deposits, that is to say the ratio of the liquid assets to the current liabilities.

This ratio is the barometer of the monetary situation and its weekly fluctuations inspire numerous comments in the financial papers. It is calculated as follows:

ACCOUNT FOR THE WEEK ENDED JULY 15th, 1931

		£
Deposits:	Public	15,676,264
	Other	100,134,130
		115,810,394
Reserve:	Notes	65,077,749
	Gold and Silver Coin	1,208,868
		66,286,617

Ratio: $\dfrac{\text{Reserve} \times 100}{\text{Deposits}} = \dfrac{£66,286,617 \times 100}{£115,810,394} = 57{\cdot}2\%$

Before the war this proportion oscillated generally between 40 and 50 per cent. Thirty per cent was considered as a minimum below which it was unwise to allow it to fall.

After the war, the ratio weakened considerably, having been for some considerable time about 18 per cent (14 per cent in 1920 and 1921) by reason of an increase in deposits.

The remodelling of the Bank's statement in November 1928 makes it difficult to compare the ratio previous to that date and that of to-day. The normal figure for the latter seems to have been established round about 50 per cent, during the last few years, but on account of the increase in the fiduciary issue, the ratio has, since that time,

been subject to fluctuations which are not only rather more violent but are on a greater scale.

The '*reserve*', the '*ratio*', and the '*bankers' deposits*' of the Bank of England are the pointers which indicate the phenomena of the money market. We shall better understand the importance of 'bankers' deposits' when we have shown its fundamental importance in the monetary and banking system of Great Britain. The study of the joint stock banks will enable us to estimate better the importance of this heading.

CHAPTER II

JOINT STOCK BANKS

In order properly to understand the great British deposit banks, sometimes known as commercial banks, it is necessary to trace rapidly the evolution of banking in England during the last century. We must also take into account the inexorable process which induced Great Britain voluntarily to adopt a concentration of banking to a degree unknown in any other country. It is, indeed, essential to study this process in order to be able to understand the role played by the five enormous institutions which, between them, control to-day more than three-quarters of the credits which are the life blood of British trade and industry.[1]

We have already seen that the Bank of England has only nine branches in all England. It has always been necessary, therefore, that there should be other banks to receive deposits and grant credits. Nevertheless, by reason of the virtual monopoly acquired by the Bank of England in the eighteenth century only private banks existed at the commencement of that century, that is to say banks with a maximum of six partners, all of whom were personally responsible for the firm's debts. As the great industries of the country began to emerge, the banking facilities offered to the public by these houses soon became obviously inadequate. The small private banks found themselves obliged to engage in operations which were really too vast in proportion to the relatively modest resources at their command. As a result there was an

[1] And in increasing measure of the State itself.

alarming increase in failures during the first quarter of the nineteenth century. The situation was, to a certain extent, similar to that which was to develop in the United States a century later.

The position became such that in 1826 Lord Liverpool was able to state in Parliament that the existing banking system 'would permit every description of banking except that which is solid and secure'.

An act of 1826 explicitly gave the right of note issue to banks constituted with a membership of more than six persons (Joint Stock Banks) which were established not less than sixty-five miles from London. Later on, in order to remove all doubt, an act of 1833 made it plain that inside the radius of sixty-five miles, Joint Stock Banks could be established and could carry on every type of banking operation, other than note issuing.

The result of this legislation was a sudden and fairly large development of joint stock banking. In 1834 was founded the London and Westminster Joint Stock Bank, one of the oldest of the English deposit banks. In 1836 the London Joint Stock Bank was formed, and in 1839 the Union Bank and the London and County Bank; to mention a few of the principal ones.

This new development of banks occurred too quickly not to produce excesses, and, as crises became more frequent, public opinion assigned the responsibility to the very large amount of bank notes in circulation and to the insufficiency of their backing. To this cause of trouble was added an outbreak of unrestrained speculation in railways which were then in course of construction.

The issuing banks had remained free to fix the total of their note issues and the proportion of their reserves at any figure which they might choose. Some sort of regulation seemed essential, and this was brought about by the famous

Bank Charter of 1844, which led, as we have already seen, to the progressive suppression of the note issues of the banks.

The joint stock banks continued to be exposed to the hostility both of the Bank of England and of the private banks. A number of quarrels, fought out in the Courts, helped to impede their activities. The private banks in London had organized a Clearing House, and having a monopoly, they guarded it jealously until 1854, at which date six joint stock banks were finally admitted to the Clearing House, side by side with the twenty-five private banks who already possessed the privilege.

THE DECLINE OF PRIVATE BANKERS

After that period, the advantages of the joint stock banks became obvious, and a process of evolution began which gradually brought about the extinction of most of the private bankers by means of fusion or absorption.

The main reasons for this extinction were as follows:

(*a*) The public had lost confidence in the private banks. The constant creation of new partnerships, of which many foundered under fraudulent conditions, involving the ruin of their shareholders, had done great harm to the most honourable of the old firms.[1] The public believed furthermore that there was less risk of fraud, and less possibility of speculation in a joint stock company which was compelled to publish a balance sheet, and whose directors

[1] The principle of limited liability was established by a law of 1858, but few banks took advantage of the facilities offered for fear of diminishing public confidence At the same time by reason of the failure of a Scottish bank, the City of Glasgow Bank, under conditions such that the shareholders had to pay £2750 in cash for each £100 of shares, a new law entitled the Reserve Liability Act was passed in 1879. This law permitted the reservation of a part of each share in such fashion that it was only callable in case of liquidation. In addition the responsibility of the shareholders was limited to a fixed amount, and on the other hand the depositors had as guarantee for their deposits all the subscribed capital, be it paid up, callable or reserved Take

received a fixed remuneration. The successive failures of private banks, of which the most spectacular was that of Overend Gurney in 1877, strengthened this view.

(*b*) The private banks of London made their profits by looking after great private fortunes, and by acting as agents for the provincial banks. They had long since given up their note issuing rights. The provincial bankers continued to use their privilege of note issue, making their profits by financing agriculture and by making advances against land. When a clearing was organized in 1858 for provincial cheques, such cheques were substituted for notes in the provinces as the usual means of payment, and the system of branch banking became therefore the only really efficient one. This circumstance naturally accelerated the movement towards amalgamation.

(*c*) The development of large scale industry necessitated the provision of financial facilities on an ever increasing scale, reaching figures which soon became beyond the resources of the strongest private houses. In order to satisfy the demands of their clients, these houses were forced to seek an alliance with a joint stock bank, a step which was frequently a prelude to an absorption.

Nevertheless for three-quarters of a century the private bankers resisted stoutly the encroaching tide of branch banking which little by little submerged them. The private

for example the 'National Bank Ltd.' We find on their balance sheet the following figures:

Nominal Capital	£7,500,000
Subscribed Capital	7,500,000
Callable Capital	1,000,000
Reserve Liability	5,000,000
Paid-up Capital	£1,500,000

This implies that the shareholders of this bank have subscribed a capital of £7,500,000, upon which they have paid up £1,500,000. The Board can request them to pay up a further £1,000,000 for the development of the bank's activities Their payments are thus limited so long as the bank prospers On the other hand, in case of liquidation under bad conditions they risk having to pay a further £5,000,000 to the depositors.

bankers had the advantage of being bound closely together by ties of kinship, or frequent inter-marriages and by a community of religion, the majority being Quakers. This solidarity expressed itself in an efficient co-operation, and by the interchange of credit information; an interchange which was all the more efficient owing to the fact that each one of the private bankers knew his customers personally.

THE MOVEMENT TOWARDS CONCENTRATION IN BANKING

The movement towards concentration in banking which caused these private bankers to disappear, was a movement which changed slowly as it progressed. It is interesting to note the successive stages. During the nineteenth century, and up to the war of 1914-1918, the numerous banking fusions which were registered were brought about almost entirely by the extension of joint stock banks, which, already possessing considerable ramifications, sought on the one hand to increase their network of branches by absorbing local firms, or on the other hand, to acquire a London house in order to gain admission to the clearing house of the City.

After 1917, however, there was a tendency for amalgamations to take place between banks of equal importance which found themselves in some way complementary either by the geographical distribution of their branches or by the nature of their operations.

One of the best examples of this kind was the absorption of Parr's Bank by the London County and Westminster Bank in 1918. Both banks were established in the City, but the first had the majority of its branches in the great manufacturing districts of the North, Midlands and West,

whilst the Westminster was intrenched in the agricultural counties which encircle London. The great need for credits in the industrial counties was counterbalanced by the superabundant deposits of the agricultural districts. The amalgamation proved, therefore, to be profitable to the customers of both banks, whilst at the same time the operating expenses were reduced. Nevertheless the benefits to be obtained by the customers were not always obvious and projected amalgamations were several times prevented by the strength of local opposition! We shall see later how the Midland Bank discovered, in 1917, how to extend its operations to Scotland, and to acquire large interests there, without offending the susceptibilities of the Scottish clients and their local traditions.

This process of concentration reached its apex in 1918 during the Peace Conference in Paris, when it was perceived that the five biggest joint stock banks were becoming immensely powerful. They were promptly nicknamed the 'Big Five', after the term colloquially applied by the press to the Council of Five which was sitting at Versailles at that time.

Public opinion began to be disturbed with regard to the power wielded by the Big Five. In the event of steps being taken for an amalgamation of two of these Big Five, would the Bank of England be able to maintain its role as regulator of the market? Would not there be a risk that such a great concentration of capital might be contrary to the interests of the country? What would be the consequences of an error in policy on the part of an institution controlling such a large part of the country's credit? Such a concentration might also bring into the foreground the question of the nationalization of the banks.

A committee which was set up by the Treasury in 1918 in order to study the danger which might arise from a

'Trust' in money remarked that in England the number of private bankers had been reduced since 1891 from 34 to 6, and the joint stock banks from 106 to 34. This committee, whilst it made no strong objections to the absorption of local banks, criticized very strongly any further amalgamations between the big banks.

The committee admitted that banking amalgamations had the advantage of spreading credit to better advantage over the country, but on the other hand it pointed out that at the stage reached, it would be only on rare occasions that a fusion between two banks would appreciably enlarge their sphere of operation. It was also recognized that the more powerful the bank, the more easily it could grant large credits to trade and industry, but these advantages were counterbalanced by inconveniences which could not be ignored. The reduction in the number of banks had unquestionably resulted in reducing the proportion which the capital and reserves bore to the liabilities, and that proportion could not be reduced further without prejudicing the security of the depositors. On the other hand, the reduction in the number of acceptors of prime bank bills to a few names, might enable either the Bank of England or the continental buyers to limit the amount of the acceptances of each individual house which they would be prepared to take. Finally, it was foreseen that a Trust in money might be formed which could, perhaps, challenge the supremacy of the Bank of England.

The committee recommended, therefore, the adoption of legislation to the effect that any further amalgamation should be first submitted for the approval of the Treasury and the Board of Trade. This project never became law, but nevertheless, as so often happens in England, a species of tacit agreement has been adopted whereby, before making any further amalgamation, the agreement of the

Treasury should be first obtained.[1] It is quite possible that such agreement would not be given if the proposed amalgamation tended to create a financial monopoly or a too great concentration of capital.

In spite of this, amalgamations still continue. In 1927 the Lancashire and Yorkshire Bank was absorbed by the Bank of Liverpool and Martins, the combined institute becoming Martins Bank. The year 1930 saw the absorption of one of the London clearing banks, Williams Deacon's, whose activities are confined mostly to Lancashire, by the Royal Bank of Scotland. More recent still is the merger of two Manchester banks, the 'District' having acquired in 1935 the 'County'.

THE BIG FIVE

We shall now proceed to examine in turn each of the Big Five. The first of these, the Midland Bank, is the largest of the English banks, and it recaptured in 1932 the position of being the largest deposit bank in the world, from the Chase National Bank of New York which had previously supplanted it.

The Midland Bank. It would be an error to imagine that the Big Five were created by the exceptional development of London houses who sought to increase their interests outside the City. This would only be true of the Westminster Bank. The others, on the contrary, have originated in provincial banks who, having asserted their predominance in the provinces, have become established in London following on the absorption of a London bank.

The Midland Bank was thus originally a Birmingham

[1] See 'Macmillan Evidence', Q. 2046. Mr Beaumont Pease, chairman of Lloyds Bank.

bank, founded in 1826, and which had developed largely in the Midlands. From 1880, under the direction of Sir Edward Holden, it had grown considerably by the acquisition of local banks, but it was not until 1891 that it established its head office in London, following on the absorption of the Central Bank of London and its entrance into the clearing house. In 1898 it consolidated its position in London by the incorporation of the City Bank of London.

There began then a struggle with Lloyds Bank for the position of the world's largest deposit bank. The Midland obtained a considerable lead after 1913 by its successive amalgamations with the Hallamshire, Lincoln & Lindsey Bank, and with the Metropolitan Bank of Wales, and this lead has been since maintained in spite of the fact that the absorption of the large banking house of Cox & Co. by Lloyds Bank materially increased the size of the latter.

Halted for a moment by the war, the Midland resumed its policy of expansion after 1917. The whole of the capital of the Belfast Banking Corporation was acquired, and in so doing the Midland inaugurated a new method. It would have been almost a certainty that the clients of an old-established Scottish or Irish bank with long and honourable traditions would be offended by the complete absorption of their bank, and by the emergence in its place of a great London house which would appear to them as an entire stranger. In order to avoid offending their susceptibilities, the Midland acquired the capital of the Belfast Banking Corporation in the same way as a holding company would do. Similarly the Midland has become affiliated to the Clydesdale Bank and to the North of Scotland Bank. These banks continue to exist as legal entities outside the Midland Bank, retaining their rights to note issue, but obtaining at the same time for their own branches all the

advantages which the Midland Bank can offer, such as representation in London, foreign exchange facilities, etc.

In 1918 the Midland Bank absorbed the London Joint Stock Bank, a clearing bank founded in 1885. This was the last great acquisition, as public opinion was becoming somewhat hostile to any new encroachments.

The four other big banks. Like the Midland Bank, Lloyds Bank and the National Provincial Bank are both the result of the development of provincial banks who grew by the absorption, first of old local banks and later of London houses.

The greatest amalgamation of Lloyds was that which took place in 1918 with the Capital & Counties Bank which had been founded in 1843 and which brought to Lloyds 473 branches of which the majority were in places wherein Lloyds had not yet set foot.

The National Provincial bank, which dates from 1826, did not attempt for some considerable time to seek any fusions outside those houses with which it was in the closest touch. After 1918, on the contrary, it showed itself one of the most enterprising of the Big Five. It acquired among others the capital of Coutts & Co., one of the clearing banks. Coutts has however remained an independent unit, in order that the habits of its old-established clientele, who are for the most part wealthy private individuals, should not be disturbed.

Contrary to the three banks mentioned above, the Westminster Bank owes its present position to the expansion into the provinces of an old London bank which was founded in 1834. It was not until 1909 that the bank left the confines of the City and commenced a policy of development on a national scale. The two principal stages were the absorption of the London & County Bank in 1909 and Parr's

Bank in 1919. As we have mentioned above, the last fusion is considered as a model of its kind.

Finally there is Barclays Bank. The history of this bank is possibly the most curious of them all. From the eighteenth century onward, Barclays Bank was owned by a private partnership consisting of three families of Quakers, Barclay, Bevan, Tritton & Co. Up till 1896 this partnership led the opposition to the joint stock banks, and it increased its activities and its profits by the absorption of a number of other private banks. After this date it amalgamated with a dozen private banks, changing its form into that of a limited company. The process of development continued still further and an amalgamation took place in 1916 with the United County Bank which possessed numerous branches in West Lancashire, Yorkshire and the Midlands, and in 1917 with the London Provincial Bank and the South Western Bank which had themselves amalgamated a little earlier.

In this way one of the old private banks succeeded in becoming the second of the Big Five, and in epitomizing in itself the banking history of England for more than a century.

December 31st, 1934 (000's omitted)

	Branches	*Capital and Reserves*	*Deposits*	*Total Resources*
Midland	2,104	27,503	419,038	446,541
Barclays	2,125	26,058	380,094	406,152
Lloyds	1,900	25,522	372,140	397,662
Westminster	1,073	19,723	305,653	325,376
National Provincial	1,370	18,358	297,369	315,727
				£1,891,458

CLEARING BANKS

Besides the Big Five, which we have studied somewhat closely, there are five other banks which are members of the London Clearing House. They are:

December 31st, 1934 (000's omitted)

Foundation	*Name*	*Branches*	*Capital and Reserves*	*Deposits*	*Total Resources*
1831	Martins	559	7,674	82,620	90,294
1836	Williams Deacon's	282	2,852	33,743	36,595
1835	National Bank	269	2,715	38,866	41,581
1753	Glyn Mills	2	1,590	38,137	39,727
1692	Coutts & Co.	5	2,000	20,742	22,742

	£230,939
Big Five:	£1,891,458
Clearing Banks' total resources at 31/12/34	£2,122,397

The two first are provincial banks which have acquired access to the City through absorbing London houses. Martins Bank is, in fact, the result of the absorption of the old City house of Martins by the powerful Bank of Liverpool in 1918. In its present form it is comparable perhaps in importance with the Comptoir National d'Escompte in Paris and may one day transform the 'Big Five' into the 'Big Six'. Martins Bank has adopted a very active policy and it absorbed the Lancashire & Yorkshire Bank in 1927.

Williams Deacon's which was taken over in 1930 by the Royal Bank of Scotland, remained nominally independent. These two combined firms together possess resources about equal to those of Martins Bank.

The National Bank is an Irish bank and the majority of its branches are in the Irish Free State.

Glyn Mills, and Coutts, are two examples of an era that is ended. These two houses are really private banks with a limited clientele of rich people. They specialize in the management of estates. Glyn Mills, however, in spite of the fact that it is still a partnership, has had a tendency to develop along lines similar to those of the joint stock banks. It was turned into a private company with unlimited liability in 1885, but the shares of the company have remained, up to the present, in the hands of the descendants of the original founders.

Coutts is entirely controlled by the National Provincial which has permitted it to retain its nominal independence in order, as we have said, not to offend the susceptibilities of its clients.

Outside the clearing banks, there remains two more London deposit banks: one, Grindlay & Co. is controlled by the National Provincial Bank; the other, Hoare & Co., is a small private bank which has remained independent and whose origin dates back to 1677.

Having completed the examination of the London banks, we now come to a consideration of the banks which correspond to the French provincial banks, and which in Great Britain are divided into three groups. English provincial banks, Scottish banks, and Irish banks.

PROVINCIAL BANKS

The English provincial banks have nearly all disappeared by absorption or amalgamation. The last remaining ones are the following:[1]

[1] In 1935 the District Bank took over the County Bank and became the only provincial bank really autonomous.

June 30th, 1935 (000's omitted)

Founded	Name	Branches	Capital and Reserves	Deposits	Total Resources
1829	District Bank	394	4,210[1]	48,630	54,000
1852	County Bank	189	1,840[2]	17,000	17,400
1859	Yorkshire Penny Bank	151	2,000[3]	32,780	34,780

[1] Plus £1,264,000 callable capital and £6,320,000 reserve capital.
[2] Plus £273,000 callable capital and £4,095,150 reserve capital.
[3] Plus £500,000 callable capital

The Yorkshire Penny Bank is in a class apart, as its shares are divided amongst eight shareholders who are: the Big Five, Martins Bank, Williams Deacon's, and the District Bank. These eight banks possess varying proportions of its capital, the National Provincial, which publishes details of its assets, possessing 12½ per cent.

Finally the Union Bank of Manchester survives in name but its total share capital is in the hands of Barclays Bank; its total resources amount to £18,720,000.

SCOTTISH BANKS

There are eight Scottish banks all of which have preserved their rights of note issue, but their total note circulation does not exceed twenty million pounds (cf. above p. 43). Four of these banks have passed into the control of the big English banks but their legal independence has been properly safeguarded, one reason for this being in order that they should preserve their note issuing powers.

The Scottish banks which have retained their own independence are as follows:

THE JOINT STOCK BANKS

1934 (000's omitted)

Founded	*Name*	*Head Office*	*Branches*	*Capital and Reserves*	*Deposits*	*Notes*	*Total Resources*
1695	Bank of Scotland	Edinburgh	245	2,700 [1]	35,470	2,980	41,150
1727	Royal Bank of Scotland	—	241	7,560	58,950	2,790	69,300
1810	Commercial Bank of Scotland	—	337	5,100	38,930	3,220	47,250
1830	Union Bank of Scotland	Glasgow	212	3,000 [2]	28,560	2,400	33,960
							£191,660

[1] Plus £750,000 callable capital.
[2] Plus £4,000,000 reserve capital.

Regional particularism protected the Scottish banks for some considerable time against the encroachments of the big London houses. We have, however, seen how in 1917 the Midland Bank inaugurated a new method of expansion, which enabled it to make its acquisition without offending the susceptibilities of the clients. The Scottish banks affiliated to the English banks are:

Founded	*Name*	*Head Office*	*Branches*	*Capital and Reserves*	*Deposits*	*Notes*	*Total Resources*
1746	British Linen Bank	Edinburgh	208	3,250	30,360	2,580	36,190
1825	National Bank of Scotland	—	182	2,650 [1]	35,720	2,350	40,720
1838	ClydesdaleBank	Glasgow	202	2,900 [2]	31,500	2,730	37,130
1836	North of Scotland Bank	Aberdeen	158	2,300 [3]	24,640	2,150	29,090
							£143,130

[1] Plus £3,900,000 callable or reserved capital.
[2] Plus £4,050,000 callable capital.
[3] Plus £2,120,000 callable or reserved capital.

The British Linen Bank, founded in Edinburgh in 1746 by Royal Charter, has been entirely controlled since 1918 by Barclays Bank, who possess 99 per cent of its capital.

Since 1918 the National Bank of Scotland has been controlled by Lloyds Bank, who own 97·74 per cent of its shares.

Finally the Midland Bank, which was the first of the Big Five to set foot in Scotland, controls 353 Scottish branches through the intermediary of the Clydesdale Bank and of the North of Scotland Bank whose entire capital it owns.

Adding together the figures in the two tables given above, we see that the resources of the Scottish banks total £335,000,000. This figure does not take into account the resources of Williams Deacon's, the English bank which, as we have seen above, has passed into the control of the Royal Bank of Scotland.

IRISH BANKS

Ulster, in the North-Eastern corner of Ireland, is still part of Great Britain, the remainder constituting the Irish Free State. Strictly speaking, therefore, we are only concerned here with the Ulster banks. Many Irish banks, however, operate both in the Free State and in Ulster at the same time, whilst the situation is further complicated by the fact that the National Bank, an Irish bank, is at the same time a London clearing bank.

There are, in all Ireland, nine banks, all of which, like the Scottish banks, have preserved a limited right to note issues. Two of the Ulster banks are controlled by London houses. The Belfast Banking Co. Ltd. is controlled by the Midland Bank, and the Ulster Bank by the Westminster Bank.

THE JOINT STOCK BANKS

1934 (000's omitted)

Founded	*Name*	*Head Office*	*Branches*	*Capital and Reserves*	*Deposits*	*Notes*	*Total Resources*
1827	Belfast Banking Co. Ltd.	Belfast	86	1,600[1]	14,870	790	17,260
1836	Ulster Bk. Ld.	Belfast	114	2,000[2]	21,560	1,430	24,990
							£42,250
1783	Bk. of Ireland	Dublin	134	5,950[3]	36,190	1,870	44,010
1825	Hibernian Bk. Ltd.	—	58	1,160[4]	11,050	510	12,720
1885	Munster Leinster Bank	Cork	204	1,750[4]	24,540	820	27,110
1835	National Bank Ltd.	London	208	2,570[4]	37,580	1,290	41,440
1824	Northern Bank Ltd.	Belfast	191	1,200[4]	14,050	1,130	16,380
1825	Provincial Bank of Ireland	London	98	1,020[4]	14,600	930	16,550
1836	Royal Bank of Ireland Ltd.	Dublin	71	590[4]	6,240	230	7,060
							£165,270

[1] Plus £1,700,000 callable capital

[2] Plus £2,200,000 callable capital

[3] The liability of shareholders is unlimited.

[4] Plus callable and/or reserved capital = Hibernian £1,500,000; Munster and Leinster £1,125,000; National Bank £6,000,000; Northern £2,800,000; Provincial £3,540,000; Royal £1,200,000.

The grand total of the resources of the Irish banks is therefore £207,500,000. We are not surprised to find that this total is less than of the Scottish banks, as Ireland is a poor country and very little industrialized.

We have now completed our survey of the deposit banks of Great Britain and Ireland.

The two tables which follow have been compiled in order to bring out the relative importance of the different groups.

RESOURCES OF BANKS IN GREAT BRITAIN AND IRELAND

(Capital, reserves, deposits and notes)

1934 (000's omitted)

A. ENGLISH GROUP			
1. Clearing banks	£		£
Midland	446,540		
Barclays	406,150		
Lloyds	397,660		
Westminster	325,380		
National Provincial	315,730	Big Five total	1,891,460
Martins	90,290		
National	41,580		
Glyn Mills	39,730		
Williams Deacon's	36,600		
Coutts	22,740	Other Clearing banks	230,940
2. Non-clearing banks			
Hoare	3,790		
Grindlay	3,400	Non-clearing banks' total	7,190
3. Provincial banks			
District Bank	52,840		
County Bank	18,840		
Yorkshire Penny	34,780		
Union Bank of Manchester	18,720	Provincial banks' total	125,180
		English group total	£2,254,770
B. EIGHT SCOTTISH BANKS			334,790
C. NINE IRISH BANKS			207,520
		Grand total	£2,797,080

RESOURCES CONTROLLED BY THE BIG FIVE AND OTHER BRITISH COMMERCIAL BANKS

1934 (000's omitted)

A. ENGLISH GROUP			
1. London banks	£		
Midland	441,000		
Clydesdale Bank	34,230		
North of Scotland Bank	26,790		
Belfast Banking Co.	15,660	£	
		517,680	
Barclays	394,910		
British Linen Bank	32,940		
Union Bank of Manchester	17,450		
		445,300	
Lloyds	397,560		
National Bank of Scotland	38,070		
		435,630	
Westminster	322,790		
Ulster Bank	22,990		
		345,780	
National Provincial	315,490		
Coutts	20,740		
Grindlays	3,120		
		339,350	
Total for the Big Five			£2,083,740
Martins Bank	90,290		
Glyn Mills	39,730		
Hoare	3,790		
			133,810
2. Three Provincial banks (District, County, Yorkshire)			106,460
TOTAL RESOURCES CONTROLLED BY ENGLISH BANKS			£2,324,010
B. RESOURCES CONTROLLED BY 4 INDEPENDENT SCOTTISH BANKS (including Williams Deacon's deposits controlled by Royal Bank of Scotland)			£225,400
C. RESOURCES CONTROLLED BY 7 INDEPENDENT IRISH BANKS			£165,270
Grand Total			£2,714,680

In the first table we have adopted the traditional classification which groups together the ten London clearing banks without taking into account the fact that the National Bank is in reality an Irish bank, and which shows the group of English banks in opposition to the Scottish and Irish banks. Such classification is based upon the origin of the deposits.

In the second table we have adopted a different classification based upon the control of capital. To estimate the amounts actually controlled by one bank, we have deducted from its deposits the accounts due to affiliated companies, and we have added to these resources the deposits and notes of the affiliated banks.

This table shows even more clearly than the previous one the preponderance of the Big Five, who between them control 80 per cent of the banking deposits of the country. As we shall see later, the figures of the acceptance houses and discount houses are not sufficiently large to alter this preponderance to any degree.

THE ACTIVITIES OF THE BIG FIVE OUTSIDE GREAT BRITAIN

We have shown, in the preceding tables, the great predominance of the Big Five in Great Britain, in which they control either directly or indirectly through their subsidiaries, four-fifths of the banking deposits.

Such financial power could not but have its reflection outside the United Kingdom. It is obvious that banks of such a size, in a country as industrialized as England, would necessarily have many and close ties with foreign banks.

The *Midland* has always followed a policy of refraining

from any participation in overseas enterprises, and only works abroad through the intermediary of its correspondents. The Midland (Overseas Branch) is merely its foreign department transformed for the purpose of convenience into a separate branch.

On the other hand all the other great English banks have subsidiaries whose activities are centred overseas.

Lloyds Bank. Lloyds Bank was the first to extend its operations into the international sphere. In 1911, it acquired the firm of Armstrong & Co., established in Paris and Havre, and turned it into Lloyds Bank (France), later to be transformed into Lloyds & National Provincial (Foreign Bank) Ltd. in which the two London banks participate equally. Lloyds & National Provincial Foreign Bank has fifteen branches in France, two in Belgium and one at Geneva.

During the war, Lloyds Bank, in conjunction with the Westminster Bank and the Credito Italiano, formed the British-Italian Banking Corporation in London and its Italian counterpart, the Banco Italo-Britannica. These enterprises had an unfortunate existence, and were finally ceded in 1929 to the Bank of America group of California.

A further example of the initiative of Lloyds was the formation in 1919 of a small company called the South Russia Banking Agency Ltd. which was most probably connected with the operations of General Wrangel. This company was liquidated in 1925.

Lloyds acquired in 1918 the London & River Plate Bank which operated in the Argentine, and in 1923 the London & Brazilian Bank. These two banks formed the basis for the formation of the Bank of London & South America Ltd. of which capital Lloyds Bank owns 57 per cent. This bank has branches all over South

America, and in New York, Paris, Antwerp, Lisbon, and Oporto.

Lloyds Bank has possessed since 1919 an interest in the National Bank of New Zealand, owning 6 per cent of its capital.

Finally, Lloyds Bank has an interest in West Africa, owning 12 per cent of the capital of the Bank of British West Africa, having thus a slight preponderance over the Westminster Bank, the National Provincial Bank and the Standard Bank of South Africa Ltd., who each own 11 per cent of the capital of this colonial bank.

Westminster Bank. Shortly after Lloyds Bank, the Westminster ventured on the Continent in 1913 with the Westminster Foreign Bank Ltd. which has now five branches in France and two in Belgium.

Barclays Bank. In 1921 Barclays Bank obtained the control of Cox and Co. (France) which was turned into Barclays Bank (France) Ltd. with fifteen branches in France and Algeria. In 1925 Barclays Bank S.A.I. of Rome and Genoa was formed as an Italian limited company. In 1929 Barclays Bank (Canada) was registered at Montreal. By far the most important of its subsidiaries is, however, Barclays Bank (Dominion, Colonial & Overseas), formed in 1925 in order to absorb several banks already controlled by Barclays: the Colonial Bank (founded in 1836 by Royal Charter) which possessed branches in the West Indies, in Guiana, and in Western Africa, the Anglo Egyptian Bank (Egypt, the Sudan and Palestine) and the National Bank of South Africa. This combined bank has £6,525,000 of capital and reserves, and its deposits total £62,843,000.

National Provincial Bank. The National Provincial Bank, the smallest of the Big Five, has abstained from taking part in any direct operations abroad, but it is associated in several

enterprises in conjunction with Lloyds. It had a participation in the British Italian Banking Corporation Ltd., and, as we have seen, it owns half the capital of the Lloyds & National Provincial Foreign Bank, and 11 per cent of that of the Bank of British West Africa. Finally through its control of Grindlay & Co. it has acquired some interest in India, where that bank has six branches.

STRENGTH OF THE BIG FIVE

Up to the commencement of 1930 the Midland Bank was not only the largest bank in England, but also the greatest deposit bank in the whole world. This distinction was then taken from it by the Chase National Bank, but it has since been regained.

It is only fair to state that the American banks would long since have overtopped the British banks in the matter of deposits, had the system of branch banking been permitted in the United States. At the moment, with the exception of California, the American States will not permit any bank to own branches outside the town wherein is situated the head office. Thus the Chase has only twenty-six branches, whereas the Midland has more than two thousand.

Having made this reservation, we will now proceed in the table which follows, to examine the resources on December 31st 1930 of the great deposit banks in the principal countries of the world. In order to make these comparisons clearer, all currencies have been converted into their dollar equivalents at the rate of $4.86 per pound sterling.

Putting on one side the figures for the American and German banks, which are given for purposes of information

BRITISH BANKS & LONDON MONEY MARKET

DECEMBER 31ST 1930

Name	*Capital* £	*Reserves* £	*Deposits* £	*Total Resources* £ (000's omitted)	*Total Resources* $ (000's omitted)
Chase National Bank	30,515	42,256	427,583	500,354	2,435,056
National City Bank	22,680	28,044	301,146	351,870	1,712,434
Guaranty Trust	18,537	42,772	260,534	321,843	1,561,533
Midland Bank Limited	14,248	15,099	395,632	424,979	2,068,231
Lloyds Bank Limited	15,810	11,282	364,649	391,741	1,906,473
Barclays Bank Limited	15,858	10,809	348,714	375,381	1,826,854
National Provincial Bank Limited	9,479	10,153	292,206	311,838	1,517,612
Westminster Bank Limited	9,320	9,784	291,580	310,684	1,511,995
				1,814,623	8,831,165
Deutsche Bank und Disconto Gesellschaft	12,500	8,000	206,837	227,337	1,106,373
Darmstadter und Nationalbank	3,000	3,156	114,533	120,689	587,353
Dresdner Bank	5,000	1,727	111,010	117,737	572,987
Commerz und Privat Bank	3,750	2,000	61,661	67,411	328,067
Crédit Lyonnais	3,290	6,534	104,311	114,135	555,457
Société Générale	5,040	3,331	103,393	111,764	543,918
Comptoir d'Escompte	3,226	3,497	73,135	79,858	388,642
Banque Nationale de Crédit	2,571	1,463	37,321	41,355	201,261
Crédit Industriel et Commercial	806	591	10,455	11,852	57,680
				358,964	1,746,958

N.B. £1 = $4.86 = Fr frs. 124.

only, it is of great interest to compare the figures of the Big Five with those of the French banks.

COMPARISON WITH THE FRENCH BANKS

In December 1930 the five great English banks between them owned total resources of more than $8,800 millions, whilst the five biggest French banks controlled less than $1,750 millions, that is to say barely one-fifth of the English total. The difference is even more marked when the resources of the affiliated companies are brought into consideration.

Pursuing the comparison still further, we find that the resources of the Westminster Bank, the smallest of the Big Five[1], amounted to $1,500 millions, or nearly three times greater than those of the largest French institution, the Crédit Lyonnais.

Lastly all the French banks together did not wield a

[1] The Westminster Bank has since overtaken the National Provincial.

power equal to that of a single bank like the Midland, Lloyds or Barclays.

Since then the devaluation of the pound has substantially altered these figures, but even a 40 per cent depreciation in sterling leaves the smallest of the Big Five considerably ahead of the largest among the French banks.

What, then, is the reason for this striking divergence? Various explanations might be given, all of which would be partly true. In actual fact, this difference springs from a number of causes, all of which tend in the same direction.

France and England have approximately the same populations, but England is undeniably more rich, and her national annual income is possibly twice or even two and a half times as great as that of France. Furthermore, the process of concentration in banking is far more advanced in England, and the great English deposit banks do not suffer from the competition of the central bank, as is the case in France, where the Banque de France combines the functions both of a deposit bank and of a supervisor of the money market. We have, in addition, to take into account the fact that the banking habit is much more fully developed amongst the English people than in France. Finally, the policy followed by the English banks tends to multiply deposits by the ease with which advances are granted.[1]

This difference in policy becomes more apparent when we compare not only the actual figures but the relative balance sheet items of the English and French banks.

For purposes of clarity, we have combined the balance sheets of the Big Five on the one hand, and of the three

[1] During the course of the evidence by Mr. Frederick C. Goodenough, chairman of Barclays Bank, the question was put by Mr. J. M. Keynes as to the size of the figure represented by overdraft facilities granted but not utilized Mr. Goodenough refused to give any indication, and seconded by Mr. McKenna explained that a figure for total overdraft facilities granted would mean nothing, that many of the overdrafts are seasonal credits, used at different times by different trades or industries, and that a rapid increase in a series of overdrafts would probably result in the reduction to quite a considerable degree of other overdrafts.

great French *établissements de crédit* on the other hand, and in order to make possible a comparison of the various elements constituting the assets and liabilities, we have expressed each item in these consolidated balance sheets as a percentage of the total resources of each group. We have omitted the acceptances from these figures, as it appears to us to be preferable not to inflate the figures for total resources by adding figures for contingent liabilities either by reason of acceptances or of endorsements.

We have nevertheless given an indication of the size of these figures, which constitute an increase in the liabilities with corresponding assets represented by the liability of the drawers to the banks.

We shall preserve this dictinction between actual and possible liabilities or actual and 'contingent' liabilities, in all cases when, in the course of this book, we have occasion to draw up theoretical balance sheets.

These diagrams, reducing the balance sheets of the great French and English deposit banks to a common denominator, make it possible to compare the policies followed by these establishments.

With the exception of certain items which we shall discuss in a later chapter[1] the policy of the Big Five has remained remarkably stable, and the proportions indicated in the diagram have been varied very little for several years. The same might be said in a general way for the great French banks, especially for the Crédit Lyonnais and the Comptoir d'Escompte, whose successive balance sheets have revealed a very great continuity of policy. It will be of interest to compare the actual figures, before showing the common tendencies of their policies as well as the differences which can be observed.

On the liabilities side the position is approximately the

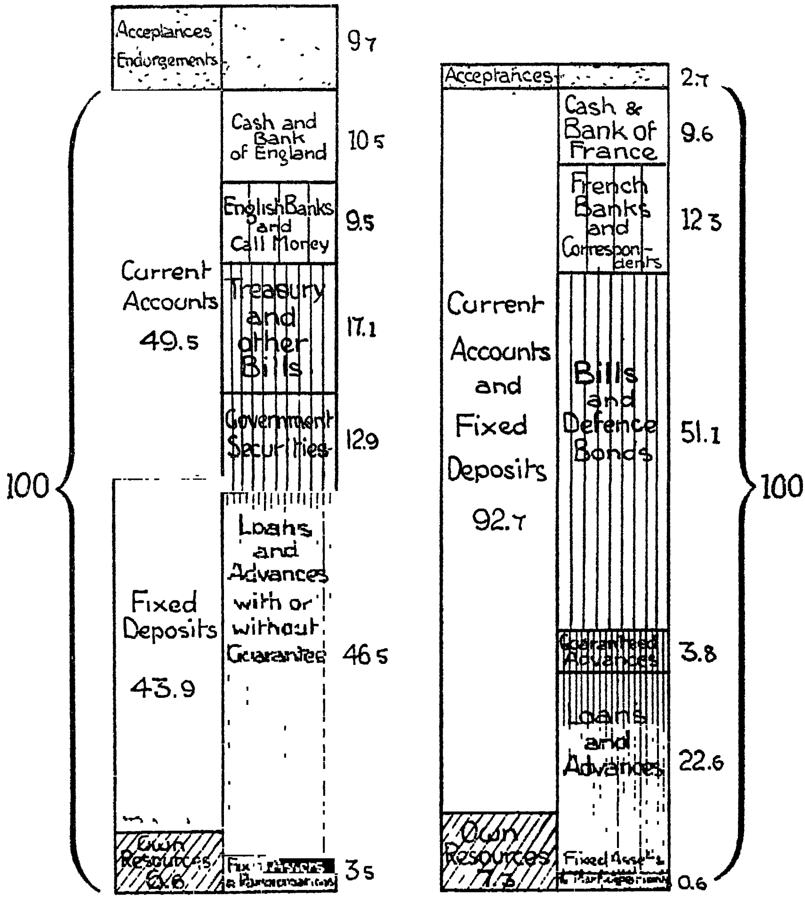
[1] See Part II, Ch. v, 'The British Banks through the Crisis'.

THEORETIC BALANCE SHEETS OF ENGLISH AND FRENCH DEPOSIT BANKS

December 1930

Average of the Balance Sheets of the Big Five and of the three main French Banks (Crédit Lyonnais, Société Générale, Comptoir National d'Escompte)

In % of total Resources Capital and Reserve + Deposits = 100



BIG FIVE
Monthly Average for Dec,

THREE MAIN FRENCH BANKS
Balance Sheet at 31 Dec., 1930

same, in both cases, although the resources of the French banks are somewhat greater in proportion to their deposits than the English. On the other hand it must be remembered that the hidden reserves of the Big Five are supposed to be considerable. In 1929 current opinion valued these reserves at a figure nearly equal to the combined figure of the capital and official reserves. That is to say the position for the five great banks at the end of 1930 was, in round figures, probably as follows:

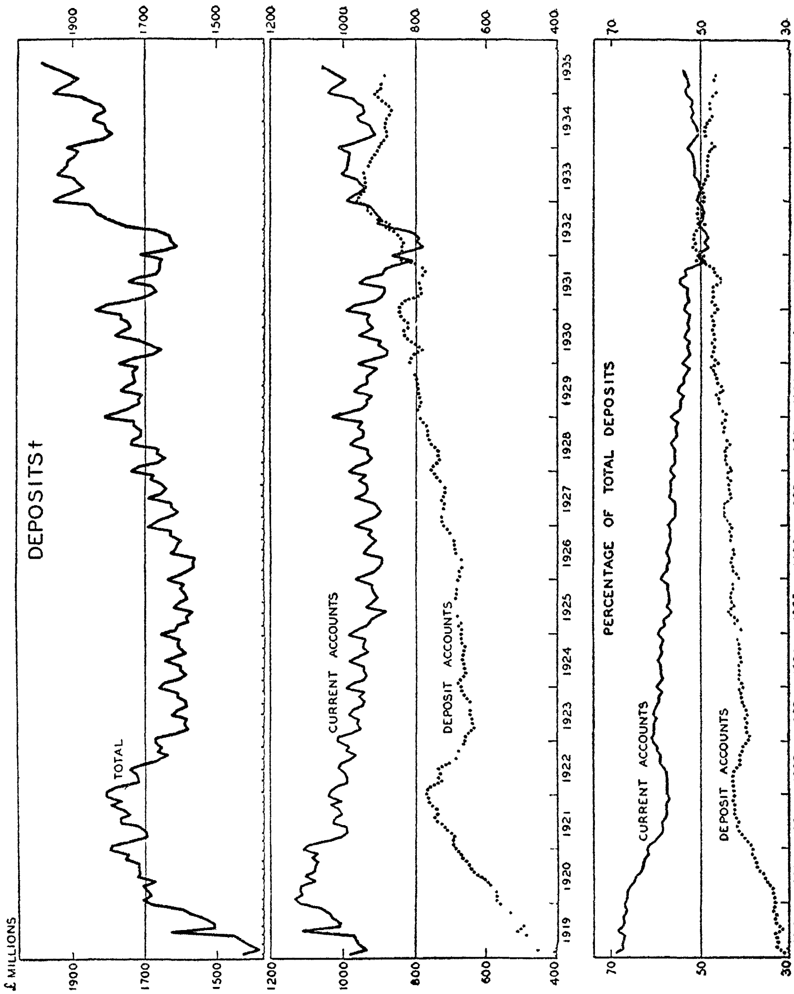
Capital	*Reserves*	*Hidden reserves*
£54 millions	£57 millions	£100 millions

At the end of 1931, these banks had to write down by £8 millions their portfolios of Government securities amounting to £235 millions. Nevertheless the depreciation in these securities amounted to about 6½ per cent or £15 millions, taking the quotations for December 31st, 1931. In other words, the hidden reserves had to provide the sum of £7 millions for writing down. All these sums have since been regained by the revival of British credit since 1932.

The individual balance sheets do not usually give separate figures for current accounts and for fixed deposits, but the Macmillan Committee[1] published these figures for the clearing banks. In 1932, fixed deposits accounted for 50 per cent of the total, the proportion having grown slowly but constantly since 1919, in which year it was only 32·8 per cent. The following graph indicates the fluctuations in current and deposit accounts both in actual figures and in percentages.

The main problem of a deposit bank is to maintain a certain equilibrium between liquid and profit-earning assets. On the one hand it has to keep liquid a sum sufficient to meet all possible withdrawals which might arise at

[1] The statistical summary of the Bank of England now publishes these figures.



† Report of Committee on Finance and Industry, and *League of Nations Bulletin*, and statistical summary of the Bank of England.

any one time. This is especially important in view of the fact that the major part of the deposits are on sight, and even those which are fixed for a period are frequently capable of being withdrawn at will by virtue of some special arrangement which the bank has made with the depositors. On the other hand, as the bank pays interest on part, at least, of its deposits, it is necessary for it to find for the balance of its funds a remunerative employment which will allow it a margin of profit. We will now examine the manner in which this problem has been solved in France and in England.

The funds which are invested in cash and in balances with the central bank are proportionately about equal, being 10·5 per cent in England and 9·6 per cent in France. That is the first line of defence, made up of absolutely liquid assets on which no interest whatsoever is earned.

Next comes the cheques in course of collection and, in the case of the Big Five, balances with other banks in the United Kingdom, and sometimes abroad, or with the discount houses either on day to day loans, or for a maximum period of seven days (short notice money). There is really no comparable figure in existence for the French banks and the corresponding figure shown in the graphs consists solely of cheques and coupons in course of collection, current accounts with other French banks, and balances with foreign correspondents.

If we group these two first headings together, they represent 20 per cent of the total resources for England and 22 per cent for France. If, however, we take into account the fact that certain of the Big Five, such as the Midland, include their balances with their foreign correspondents under the heading of advances, we may assume that the first lines of defence — those which are represented by essentially liquid funds, on which nothing is earned, or by

funds employed at sight or at short notice — have approximately the same strength in either country.

The position is not quite the same with regard to the third item; bills discounted and short term Government bills and bonds. The French banks show under the one heading their holdings of commercial bills, of Bons de la Défense Nationale, which may have a duration of two years, and of Bons du Trésor. The portfolios of the English banks contain, partly commercial bills generally with a bank signature, and partly three months Treasury bills. (The average duration of the various bills is, we believe, about 26 days.)

The Big Five, on the other hand, own '*investments*' which are made up for the most part of gilt-edged securities of which the majority are *shorts* (Treasury bonds with a few years to run). Even, however, if we consider all these investments as being of a liquidity comparable with that of the Bons de la Défense Nationale, we only get a total figure of 30 per cent in England for the second line of defence; as against 51 per cent on the figures of the French banks. If, therefore, we add together into one figure the total liquid assets, we find that they represent 50 per cent in England and 73 per cent in France. We must not come to hasty conclusions from this fact, and imagine that the liquidity of the French banks is much greater than that of the Big Five. We have to take into account the existence in London of markets which are remarkably well organized and which are normally very active in negotiating bills and securities similar to those held by the British banks. Furthermore, we must not forget the quality of the bills which are held in portfolio in London, which are for the most part Treasury bills or bank acceptances. In France, on the contrary, the bills consist generally of industrial or commercial paper, for which, except for some well known and first class signatures, there is no real market. They

can, most probably, be always rediscounted with the Banque de France, but the French banks dislike making use of this facility.

It is worth mentioning, too, that the great English banks scarcely ever sell the bills which they have either discounted for their clients, or purchased in the open market, nor do they sell the Treasury bills for which they have subscribed direct, or which they have acquired from the discount houses or from other banks.

It remains now for us to examine the items among the assets which constitute either more or less temporary advances, or definite lockups. Here the proportions are reversed, reaching 50 per cent of the total resources for the Big Five, whilst only 27 per cent of the funds of the French banks are employed in this manner.

The assets, either frozen or temporarily locked up, include the advances, with or without guarantee, which are not callable until their agreed due date, the investments in subsidiary or affiliated companies, and finally land and buildings.

The percentages for each of these three categories are higher for the English banks than for the French.

We find, in the balance sheets of the *établissements de crédit*, that advances total 26·3 per cent of which 3·8 per cent are guaranteed or covered by forward contracts. In England the figure is 46·5 per cent of the total resources, or nearly double.

In view of our remarks in the early part of this chapter we are not surprised to find that participations in England are fairly high, being 1·47 per cent for the Big Five, owing to the fact that they own the capital of several very important subsidiary or affiliated companies. There is obviously nothing comparable in France, as here the figure is only 0·28 per cent.

Finally land and buildings represent 2·04 per cent of the English figures and only 0·32 per cent of the French. This last difference is possibly due in part to the very high cost of land and of buildings in England, and to the fact that the great banks are all in the process of building magnificent head offices in the City, but it is also possibly the result of a policy of writing down which has been more rigorously applied in France than in England.

It is interesting to observe the proportion which the fixed assets (land and participations) bear to the banks' own resources. This proportion is:

$$\frac{3{\cdot}51}{6{\cdot}59} = 53{\cdot}8 \text{ per cent in England and } \frac{0{\cdot}60}{7{\cdot}32} = 8{\cdot}2 \text{ per cent in France}$$

In order to complete our analysis of these theoretic balance sheets, we have to mention the figures for acceptances.

These acceptances play a secondary part in the balance sheet of the deposit banks. We have shown them as an extension of our theoretic balance sheet as, in actual fact, the liability undertaken by the bank is a contingent one which can only become actual in the event of a default by the customer on whom is the onus of providing the necessary funds to enable the draft to be honoured at maturity. There is, nevertheless, under this heading a contingent liability which can perfectly well become a real liability, as was proved by the example of the acceptances of German origin in 1914 and in 1931. Here, too, the French banks have proportionately less liabilities, this contingent liability representing only 2·7 per cent of their real assets, whilst for the Big Five it is 9·7 per cent. Here again we must, however, make a reservation, in that the great English banks include in their contingent liabilities, the liabilities resulting from endorsements, and sometimes from forward con-

tracts as well, a practice which is not followed by the French banks.

We may, nevertheless, conclude this examination by recognizing that the French banks have more liquid assets than the Big Five. This does not necessarily mean that their position is in any way more sound, as the stability of a bank's deposits is no less important than the liquidity of its assets, and there would appear to be no doubt that in this connection the English banks are in the better position. The traditional British phlegm, fortified by the habit of using cheques, has resulted in the depositors of the banks showing a remarkable sang-froid during periods of crisis, whereas the French banks have often been the victims of inconsidered movements determined by a public opinion which is a particularly nervous one.

DETAILED ANALYSIS OF THE ASSETS OF THE CLEARING BANKS[1]

An objection might have been made to the theoretic balance sheets, on the basis of which we have been making the preceding comparisons, on the grounds that they were based upon the figures of one year only. It will be easy to reply to such a criticism by demonstrating in the following table the remarkably stable nature of the policies which have been followed by the great British banks. This table, which has been taken from the statistical bulletin of the Bank of England, has been made up from the figures published each month by the ten London clearing banks, a statement which expresses the monthly average of their weekly figures.

At the risk of being accused of repeating ourselves, we shall, once again, go over the various assets shown in the table in order to study in as precise a manner as possible

[1] See Appendix II.

the composition of these assets and their variations, as well as the manner in which they are adjusted one against the other. It will be observed that the percentages given are slightly higher than those shown in the preceding theoretic balance sheet. The reason for this is that in the latter case the percentages were based on the total resources, whilst in the table which follows they have been calculated on the total deposits. It will be observed that the total percentage figures for the assets as compared to the deposits total up to more than one hundred. This is due to the fact that part of the advances are really made against the banks' own resources. The majority of the particulars which follow were taken from the evidence given by the bankers before the Macmillan Committee, and especially from that given by Mr. Hyde, the General Manager of the Midland Bank.

The English banks have learnt from experience that in retaining about 11 per cent of their deposits in cash, that is to say in till money and balances with the Bank of England, they are providing for all probable withdrawals, and keeping at the same time a good margin of security.

In actual fact they do not keep quite as much. An average of 11 per cent certainly does appear from the monthly statements published by the clearing banks, but these statements include a certain amount of 'window dressing', that is to say their presentation is more or less artificial. Thus, it is indeed well known that the Big Five make up their weekly positions on different days. Barclays on Mondays, Lloyds on Tuesdays, the Midland on Wednesdays, and the National Provincial and the Westminster on Thursdays. Each, in its turn, withdraws funds from the money market in order to increase its cash, reducing at the same time its short term money or its bills.

The statistical bulletin of the Bank of England publishes on the one hand an average figure for the deposits of the

clearing banks with the Bank of England, and on the other hand the average monthly amount of coin and notes held by these same clearing banks. If we add these together and reduce them to an annual average, we should obtain a figure which should be roughly identical with the average obtained for the figures published by the clearing banks. In point of fact, however, there is a substantial difference.

It must be noted that since 1932, the clearing banks partially gave up this practice of withdrawing funds in turn from the money market in order to present a better weekly statement. The resultant decrease in 'window dressing' is quite clearly observable from the accompanying table, from the reduction in the difference between the figures published by the clearing banks and those published by the Bank of England.

CLEARING BANKS 'CASH AND AT BANK OF ENGLAND'

(in £ millions)

	I *Bankers*[1]	*II* *Cash*[2]	*III* *Total*	*% of Deposits*	*IV* *Cash and at Bank of Engl.*[3]	*% of Deposits*	*Difference IV-III*
1925	71·7	103·6	175·3	10·5	195·7	11·8	20·4
1926	68·6	103·0	171·6	10·3	195·3	11·7	23·7
1927	66·4	105·0	171·4	10·0	197·5	11·5	26·1
1928	65·5	104·4	169·9	9·5	196·2	11·1	26·3
1929	62·9	104·3	167·2	9·3	193·8	10·8	26·6
1930	65·5	103·5	169·0	9·4	192·0	10·7	23·0
1931	64·7	95·5	160·2	9·1	182·3	10·4	22·1
1932	81·3	89·1	170·4	9·4	186·2	10·4	16·0
1933	99·9	97·4	197·3	10·1	212·0	10·8	14·7
1934	100·3	99·7	200·0	10·7	212·0	11·3	12·0

The figures shown in the last column give the average 'window dressing'.

[1] Average of 'other deposits' in the weekly statements of the Bank of England.
[2] From currency statistics in Bank of England summary.
[3] Clearing banks' monthly statement of weekly averages.

We do not propose to dwell unduly on this point as it is one of interest to the money market only. The differences which we have observed between the percentages is indeed of little importance from the point of view of liquidity, owing to the fact that these differences are counterbalanced by corresponding differences in the total of the next items, which themselves represent a very great degree of liquidity.

The amount of cheques outstanding in course of collection and of funds kept at sight in other English banks represents, according to Mr. Hyde, 3·5 per cent of the deposits. This constitutes a sort of floating cash asset which is necessitated by the working of the banks, and which is not constituted according to any policy but according to requirements. On the other hand the Midland Bank deliberately uses 7 per cent of its deposits in the form of day-to-day or short term loans to the money market or to the Stock Exchange (the other banks do approximately the same) and 15 per cent in bills and Treasury bills. Call money, which is callable from day to day, and short notice money, are, as far as the clearing banks are concerned, made up as shown overleaf.

We see from the figures that the loans to the money market are far more important than those of the Stock Exchange, even in boom times like 1928. All these advances are guaranteed by collateral. We shall return to the advances made to the bill brokers in the chapter devoted to that subject. The advances to the stock brokers are for the purpose of carrying over from one settlement day to the next. We understand that at one time Lloyds bank made a rule not to employ more than 25 per cent of their short notice funds in operations in securities.[1] The banks do, in addition, give long term loans to stockbrokers, but these appear under the heading of advances, and not in the item under review.

[1] 'Macmillan Evidence', Q. 2088.

MONEY AT CALL AND SHORT NOTICE

Monthly averages (in £ millions)

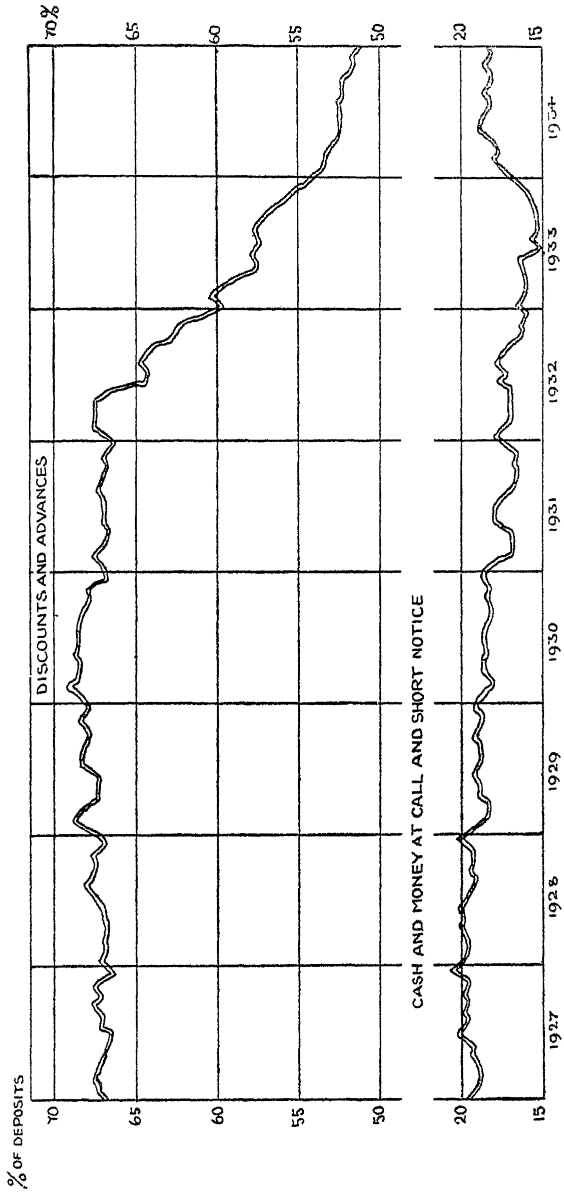
<table>
<tr><th rowspan="2"></th><th rowspan="2">At Call</th><th colspan="2">Short Notice</th><th rowspan="2">Total</th><th rowspan="2">% of Deposits</th></tr>
<tr><th>Money Market</th><th>Stock Exchange</th></tr>
<tr><td>1920</td><td>23·8</td><td>54·3</td><td>22·0</td><td>100·1</td><td>5·8</td></tr>
<tr><td>1921</td><td>27·2</td><td>54·8</td><td>18·0</td><td>100·0</td><td>5·7</td></tr>
<tr><td>1922</td><td>29·7</td><td>58·8</td><td>23·4</td><td>111·9</td><td>6·5</td></tr>
<tr><td>1923</td><td>24·8</td><td>60·2</td><td>24·5</td><td>109·5</td><td>6·7</td></tr>
<tr><td>1924</td><td>24·6</td><td>57·2</td><td>22·8</td><td>104·6</td><td>6·4</td></tr>
<tr><td>1925</td><td>24·8</td><td>61·1</td><td>30·6</td><td>106·5</td><td>7·2</td></tr>
<tr><td>1926</td><td>25·0</td><td>63·1</td><td>32·1</td><td>120·2</td><td>7·4</td></tr>
<tr><td>1927</td><td>25·2</td><td>75·4</td><td>39·5</td><td>140·1</td><td>8·4</td></tr>
<tr><td>1928</td><td>28·4</td><td>77·7</td><td>48·0</td><td>154·1</td><td>9·0</td></tr>
<tr><td>1929</td><td>28·9</td><td>76·0</td><td>43·4</td><td>148·3</td><td>8·5</td></tr>
<tr><td>1930</td><td>33·1</td><td>80·1</td><td>28·5</td><td>141·7</td><td>8·1</td></tr>
<tr><td>1931</td><td colspan="2">100</td><td>21</td><td>121</td><td>6·9</td></tr>
<tr><td>1932</td><td colspan="2">100</td><td>16</td><td>116</td><td>6·5</td></tr>
<tr><td>1933</td><td colspan="2">80</td><td>22</td><td>102</td><td>5·2</td></tr>
<tr><td>1934</td><td colspan="2">90</td><td>44</td><td>134</td><td>7·1</td></tr>
</table>

Tentative estimates in italics.

Figures taken from Appendix III, 'Macmillan Report', until 1930, and then from Bank of England Statistical Summary.

The total of the two items of cash and money at sight or short notice varies roughly in inverse ratio to the fluctuations in the total of discounts and advances, as will be seen from the following graph, compiled from the figures in the statistical summary of the Bank of England. The years 1931 to 1933 were of course abnormal, but even in these years we can trace inverse fluctuations in the two sets of figures.

We observe the half-yearly peaks in June and December, which correspond to the periods when the banks are anxious to increase their liquidity in view of their particularly heavy commitments. We observe furthermore the fall in liquidity during 1931.


% OF DEPOSITS
70%
DISCOUNTS AND ADVANCES
CASH AND MONEY AT CALL AND SHORT NOTICE
70
65
60
55
50
20
15
1927
1928
1929
1930
1931
1932
1933
1934

Under the heading of 'bills discounted' are included Treasury bills, banks bills, and trade bills. We reproduce below the subdivisions under this heading published in the Macmillan report, the last two categories being grouped together under the heading of commercial bills.

(£ millions)

	Treasury Bills	*Commercial Bills*	*Total*	*% of Deposits*
1920	115·6	144·2	259·8	15·1
1921	224·6	134·1	358·7	20·4
1922	208·0	113·3	321·3	18·8
1923	146·1	119·8	265·9	16·5
1924	104·8	125·5	230·3	14·2
1925	91·0	127·6	218·6	13·6
1926	100·9	107·8	208·7	13·0
1927	112·6	98·4	211·0	12·7
1928	107·7	118·2	225·9	13·2
1929	98·3	122·9	221·2	12·7
1930	128·6	127·2	255·8	14·7
1931[1]	*156*	*100*	256	14·6
1932[1]	*250*	*58*	308	17·2
1933[1]	*310*	*44*	354	18·1
1934[1]	*180*	*50*	230	12·2

[1] Figures taken from the Statistical Summary of the Bank of England, our own estimates being in italics.

The explanation of the fall in the amount of Treasury bills held, lies in the great reduction by the Government of the Floating Debt existing in the form of Treasury bills. (It was reduced from £1200 millions in 1921 to £570 millions in 1931.) This explains, too, the reduction in the total amount of bills held, down to 1927, as the commercial bills were not numerous enough to replace those Treasury bills which were repaid and withdrawn. From 1927 to 1930 credit expansion and active trade resulted in more commercial bills being created, but the 1931 crisis reduced

them substantially. In 1932, even though the commercial bills became still more rare, a new increase in the total of Treasury bills (£950 millions in December 1932) enabled the banks to increase their bill portfolios. A further reduction in the Floating Debt in 1934 depleted once more these holdings.

As we shall see in the chapter on Treasury bills, the amount of these in circulation is subject to seasonable fluctuations and generally is at a minimum in March and a maximum in December. This resulted up to 1931 in the relation between Treasury bills and other bills varying on an average from 40-60 in March to 60-40 in December.

Mr. John Rae[1] (Westminster Bank) observed that if at any given moment the quantity of Treasury bills in the portfolios of the banks rises in proportion to that of bank bills, this may be due to the fact that foreign central banks are large buyers of prime bank bills. Under such conditions the banks can obtain Treasury bills in the market at more favourable prices.

Since 1924 neither of these two categories have ever fallen below 35 per cent of the total amount in the portfolios of the banks, according to the evidence given to the Macmillan Committee.[2]

It is, however, probable that this has not been the case since 1932, the economic crisis having made the commercial bills increasingly rare, whilst on the contrary the total of Treasury bills outstanding has been substantially raised.

These holdings of bills are indeed of especial importance in the day-to-day policy of the banks. Mr. Hyde said, 'We

[1] 'Macmillan Evidence', Q. 2325.

[2] Ibid.

It is interesting to note that the Midland Bank, through its foreign friends, is able to obtain a large number of commercial bills, and that the proportion of its holding of Treasury bills is therefore less than the other banks (25 per cent in December 1930). (Mr. Hyde, 'Macmillan Evidence', Q. 937)

have always a large number of bills, partly because a certain number fall due every day. If we have money to lend we see if we can lend it to the money market against bank bills, or if we can employ it in the purchase of bills. For the latter we are guided by the state of our portfolio and the distribution of our maturities. If we have need of money, the bills provide us with this without the need of calling'. It would appear to be sufficient in such cases to cash the bills falling due, without acquiring others in their place. If, however, the withdrawals still continue and if the banks do not obtain sufficient funds from the bills falling due, they will call in their funds lent on call or on short notice, thus probably causing the bill brokers to ask for help in the shape of re-discounts from the Bank of England. If the situation does not adjust itself of its own accord, at the end of several days, the banks sell securities or reduce their advances, in order to readjust the ratios between their different assets. We see, therefore, that the London money market is so organized that this adjustment takes place without the banks ever having direct recourse to the central bank.

After their portfolios of bills, their next line of defence is their holdings of investments. With regard to this item the ideal proportion, according to the Midland Bank, is 12 per cent of the deposits. In actual fact the average for the clearing banks has oscillated from 1925 to 1932 between 14·3 per cent to 17 per cent, and has since reached 30 per cent. These investments are essentially British government funds, the greater part being Treasury bonds, with a few years to run, the remainder consisting of War Loan, Conversion Loans or Consols. All these securities enjoy a very widespread market, as even at the worst part of the crisis in the autumn of 1931 it was always possible to negotiate them in considerable quantities.

If we recapitulate the ideal percentages suggested by Mr. Hyde: Cash 11 per cent, cheques and balances with other banks $3\frac{1}{2}$ per cent, day to day and short notice loans 7 per cent, bills 15 per cent, investments 12 per cent, we find that 48·5 per cent of the deposits are employed in an ever increasingly remunerative manner, whilst although the degrees of liquidity falls for each item, yet these assets are still in reality all liquid ones.

There remains the heading of 'advances' to be discussed. Mr. Hyde (Midland Bank) sees no objection in employing 55 per cent of his deposits in this category. Sir W. H. Goschens (National Provincial) considered that during a normal period there is no objection to this figure reaching 60 per cent, provided that all the banks follow the same policy. Mr. Beaumont Pease (Lloyds) is not perturbed by a proportion of 55 per cent to 60 per cent, although he remarked that ten years ago 50 per cent was ample, the banks having in the intervening years become much stronger, having accumulated reserves and enjoying an even greater reputation throughout the country. On the other hand, Mr. Rae (Westminster Bank) prefers not to exceed 50 per cent, possibly on account of the fact that his bank is less interested than the others in the industrial regions of the Midlands.

With the exception of Mr. Hyde, who would appear to associate himself with the well-known 'inflationist' tendencies of his chairman Mr. McKenna, the other bankers have been unanimous in declaring that they have never felt that they were hindered in granting advances by the technical organization of the banking and monetary system of Great Britain. When they have reached what they consider to be the limit of their advances, they have had to become much more severe in their discrimination with regard to speculative advances, but they have never refused

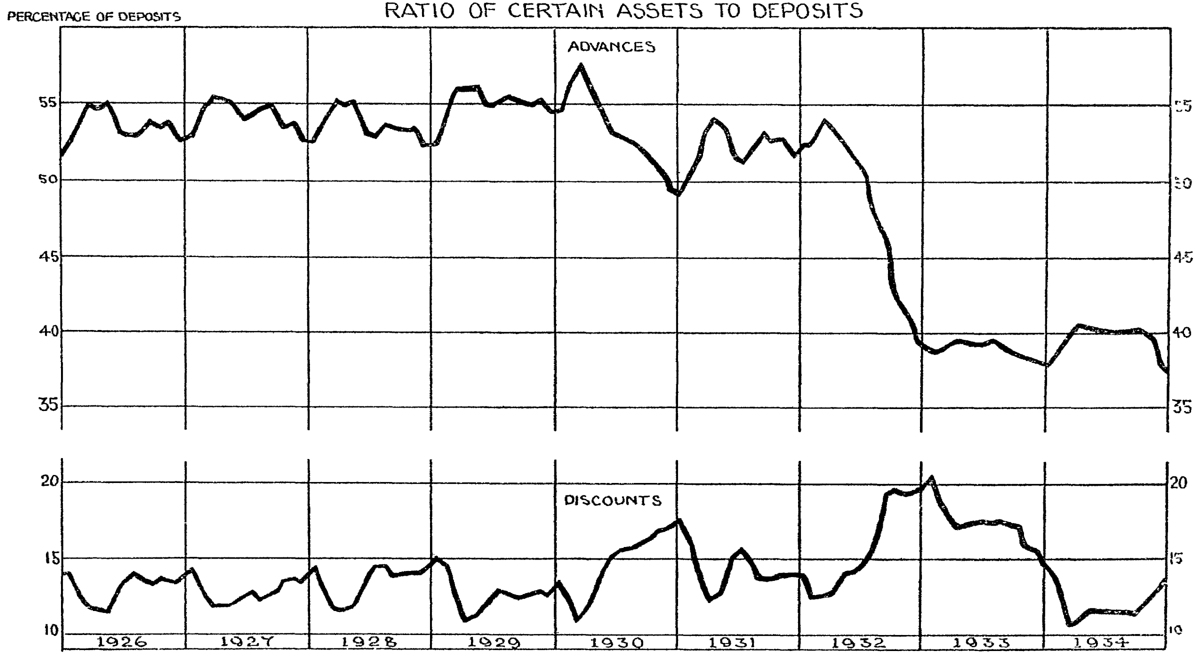
any reasonable requests which might have been made for advances from trade and industry.

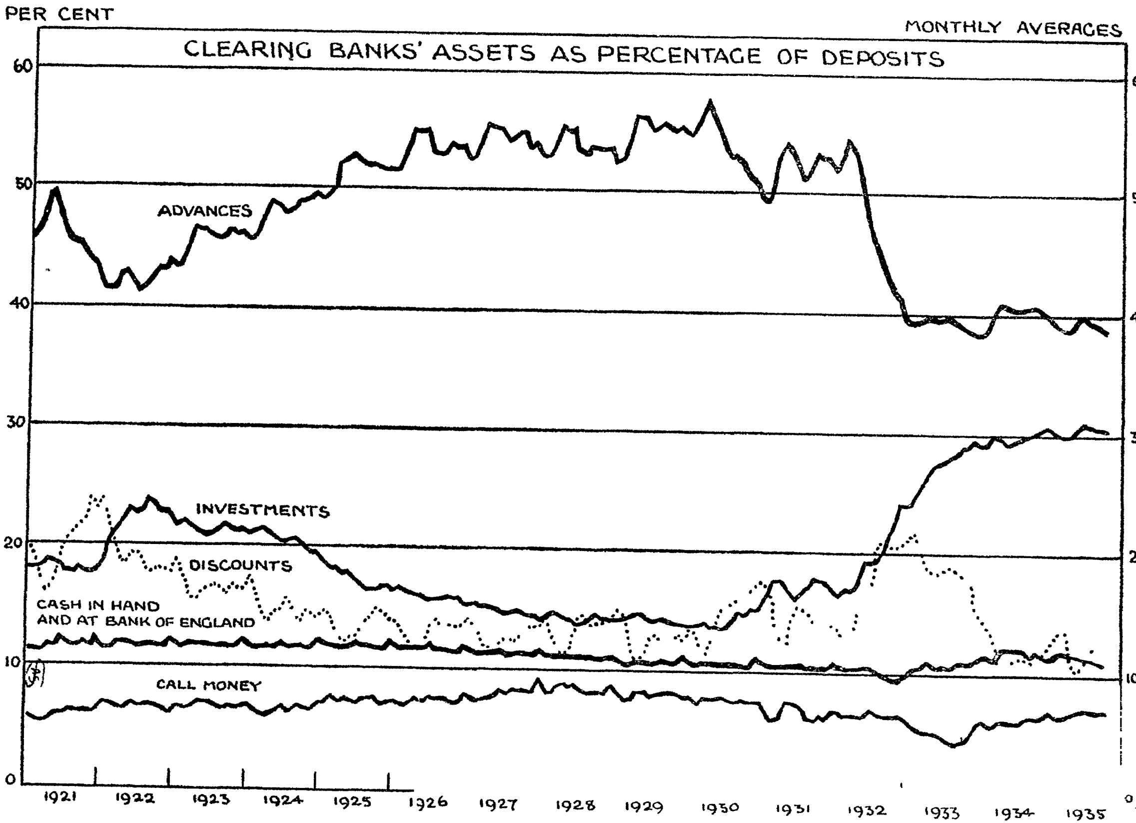
On the other hand, they believe that a proportion of at least 50 per cent of advances to deposits is essential for the financing of the country's affairs, and that a proportion of 40 per cent. as in pre-war days, would to-day be insufficient for that purpose.

The graph which follows brings out certain tendencies of the variations in the total of advances. In the first place, seasonal variations in the bill portfolios have direct repercussions on the advances, the peaks on one curve corresponding to the troughs in the other. It can, indeed, be said that to a certain extent the banks lend more to their customers when the Treasury borrows less from the country by way of Treasury bills, it being precisely at such times that the customers have to make heavy payments in respect of taxation. Still more interesting are the variations over the last fifteen years.[1] These variations confirm a tendency which has been noted and deplored by all the bankers, namely the tendency which has been increasingly observed on the part of all commercial houses and industrial concerns to substitute more and more the overdraft for the bill as a means of finance. It is true that the cost of the overdraft, especially if it is guaranteed by good collateral, is frequently less than that of the bill, to whose discount rate must be added the cost of the bill stamps and the acceptance commission. Even if the rate of interest for the overdraft is higher, the amount thereof can be reduced the moment the debtor has funds available. In any case the industrialist and the trader alike prefer to use an overdraft rather than a bill even if the cost is the same, as they thereby dispense with the necessity for signing the bill and of seeing their signature circulated.

[1] See graph p. 104.

RATIO OF CERTAIN ASSETS TO DEPOSITS




PER CENT
MONTHLY AVERAGES
CLEARING BANKS' ASSETS AS PERCENTAGE OF DEPOSITS
ADVANCES
INVESTMENTS
DISCOUNTS
CASH IN HAND
AND AT BANK OF ENGLAND
CALL MONEY
60
50
40
30
20
10
0
1921
1922
1923
1924
1925
1926
1927
1928
1929
1930
1931
1932
1933
1934
1935

The general curve of these percentages brings out another relationship, namely, that of investments to advances. Here, too, we find striking reciprocal variations and a very remarkable tendency for the total of advances and investments to remain in the neighbourhood of 70 per cent of the deposits.

It does not seem possible to establish any relationship between these variations and the discount rate. It would, indeed, be incorrect to say that the banks augment their holdings of securities to the detriment of their advances at such times as the yield from gilt-edged is exceptionally high, or that a high rate of discount discourages advances whilst a low one stimulates them. It would appear that the advances vary more in accordance with in the general situation, their increases coinciding sometimes with periods of general prosperity (1923-5 and 1928-9), and sometimes with trouble in certain great industries (1926 and 1931). When they fall appreciably the banks buy securities in order to maintain the level of their profits, this movement being particularly noticeable in 1921-2 and 1932-4.

It is of interest to note that in accordance with immemorial tradition, those advances which are granted in London are usually loans against collateral, whilst in the provinces they take the form of a simple overdraft. In theory these overdrafts facilities are only given as seasonal credits. Nevertheless a remarkable innovation was introduced by Lloyds Bank in 1932, when, contrary to all English banking traditions, an advance of £3,000,000 was granted to Stewarts & Lloyds, for an indefinite period in order to facilitate the development of the Corby Scheme. In 1935 debentures were issued to repay this advance. It remains, nevertheless, the first occasion on which an English deposit bank has undertaken an industrial participation, thus following the methods of the continental banks.

Most of the banks have refused to give detailed figures of the distribution of their advances, but they have agreed to the publishing of a table containing the total figures for the clearing banks. We reproduce this table herewith:

LONDON CLEARING BANKS AND SCOTTISH BANKS. CLASSIFICATION OF ADVANCES ON VARIOUS DATES FROM OCTOBER 22ND, 1929, TO MARCH 19TH, 1930

	London Clearing Banks £	*Scottish Banks* £
1. Textiles (cotton, wool, silk, linen, jute)	81,632,371	4,977,214
2. Heavy industries (iron, steel, engineering and shipbuilding)	62,962,675	7,658,164
3. Agriculture and fishing	68,630,471	7,623,448
4. Mining and quarrying (including coal)	30,003,440	2,382,899
5. Food, drink and tobacco	63,177,889	5,967,176
6. Leather, rubber and chemicals	21,969,950	1,507,903
7. Shipping and transport (including railways)	25,176,565	3,487,859
8. Building trades	47,824,549	1,578,970
9. Miscellaneous trades (including retail trades)	146,496,288	9,009,182
10. Local government authorities and public utility companies (excluding railways)	52,384,672	6,675,757
11. Amusements, clubs, churches, charities, etc.	26,502,720	700,399
12. Financial (including banks and discount houses, stock exchange and building societies)	142,547,506	24,989,966
13. Other advances	218,402,248	28,550,094
	£1,017,711,344	£105,109,031

There has been much discussion with regard to the degree of liquidity of these advances or alternatively the degree to which they are frozen.

According to Mr. Hyde, the advances which figure in the balance sheet of the Midland Bank have been written down whenever necessary, and the proportion of advances which might be considered as good but frozen was not very high.[1] Mr. Beaumont Pease admitted that a small proportion of the advances of Lloyds Bank made to the iron and steel industries could be considered as frozen.

We can nevertheless observe that when the total of deposits falls, the percentage of advances tends to rise, which implies that they cannot be readily reduced. In this connection Mr. Hyde explained, 'This increase represents on the one hand our desire to render service to our customers, but on the other hand our deposits having been at a very high level in the past we have lent a part thereof to commerce and we cannot now withdraw this aid suddenly from commerce without plunging it into considerable difficulties and troubles'. Mr. Goodenough of Barclays Bank considered that the increase in the ratio of advances was largely due to the fact that industries which had obtained credits were not in a position to repay them.

There is no doubt that in many cases the situation of the creditor *vis-à-vis* industry has gradually been transforming itself into that of a sleeping partner, particularly in the case of the cotton, shipbuilding, metallurgical, and mining industries as well as in agriculture. When the industrialists proved incapable of taking the necessary measures to improve their position the banks have found themselves forced to instigate measures of reorganization, amalgamation or rationalization. They have assisted these measures by giving up part of their claims and by accepting in their place either shares or 'income notes' of the new organizations so constituted. There is, however, no doubt that they have been compelled to adopt this course by *force majeure*,

[1] 'Macmillan Evidence', Qs. 988-992.

and that they have no intention of adopting as a policy the development of this type of operation.

The types of advance which the banks prefer are either those which are seasonal and which liquidate themselves automatically by the sale of the merchandise or products which the credits have financed, or those of 'average size'. It is, in this connection, of interest to note the average size of the advances of the Westminster as indicated by Mr. Beaumont Pease. The average size for all advances is £1151; it is very much lower for personal and professional advances being £561, and for agriculture £840. It is much higher for industrial credits being £10,900 for coal mines, £12,000 for iron and steel industries, and £15,600 for cotton. It attains its maximum under the heading of 'banks, assurance and finance'.

Each bank has a different organization for considering the requests for credits which come in, and for deciding upon their granting or refusal, but they have, generally speaking, all adopted some such scheme as that which follows:

The branch managers have little or no latitude, even in cases where the figures are not large. There are nevertheless exceptions in cases where the banks have left a certain degree of initiative in the hands of their old-established provincial offices where the managers have the benefit of the advice of local boards of directors. Ordinarily, however, all the requests for credits are forwarded to the head office where they are considered according to their size and importance by a superintendent of branches, an assistant general manager, by one of the general managers (who generally divide the branches between them on a geographical basis), or lastly, if the request is one of particular importance, by an executive committee composed of the general managers or by the board of directors. In several

banks, all requests which have been refused, have to be confirmed by an executive committee, in order that no branch manager should be able to imagine that a hostile manager at head office was deliberately rejecting the business which he was bringing forward. The system works with great rapidity as in the majority of cases an answer is received within twenty-four hours.

CHAPTER III

DISCOUNT HOUSES AND BILL BROKERS

The London discount market is the most remarkable feature of the City, and is an institution which has no equivalent in any other financial centre. It forms a sort of reservoir whose waterline registers the ebb and flow of monetary currents.

The circle of houses who specialize in the practice of discounting constitutes a market wherein the offers of and demands for bills are adjusted against the offers of and demands for money on day-to-day or short notice. They are the intermediaries through which the two markets, the *money market* and the *discount market*, can communicate and complement one another.

Bill broking is, in its literal sense, the business of an intermediary in bills. It has been organized for more than a century, and there is a very good account of its beginning in the evidence given in 1810 before the 'bullion committee' by a certain Richardson, who was the principal bill broker of that period. 'The nature of the agency for country banks is twofold; in the first place, to procure money for country bankers on bills, when they have occasion to borrow on discount, which is not often the case; and in the next place to lend the money for the country bankers on bills on discount.'

From the remainder of Richardson's evidence it appeared that he remitted London bills to the country for discounting and that he received in return bills for a considerable amount drawn by the provinces on London. These provincial drawings were nevertheless not dis-

counted in London but were forwarded to another part of the country. In this way many bills originating in Lancashire — already an industrial county — were discounted by the Norfolk, Suffolk and Sussex bankers, these agricultural counties possessing large disposable surpluses. As Bagehot wrote later in 1873, 'Lombard Street is the great go-between. It is a sort of standing broker between quiet saving districts of the country and the active employing districts.'[1]

The bill broker of 1810 did not give any guarantee and the discounting banker had no recourse against him. His profit consisted in a commission of $\frac{1}{8}$ per cent which was paid by the banker who was offering his bills for discount. The buying banker employed the broker because he trusted in his special knowledge which assured him a good choice of bills.

There are still in existence to-day some brokers whose operations are somewhat similar to those mentioned above, these are the *running brokers* of which there are eight in the City, and are the only ones to whom the term 'broker' (*courtier*) in its French sense can be applied.

The bill brokers and discount houses of to-day are entirely different, being in reality banks specializing in the bill trade.[2] These institutions were established in the middle of the last century and have developed particularly since the war of 1914-18 owing to the exceptional profits which they were able to earn on Treasury bills.

These houses have their own capital and buy bills or short term Government securities on their own account. Against these bills they obtain day-to-day or short notice money from the banks at low rates. They can usually

[1] *Lombard Street*, p. 11.

[2] 'The London bill brokers are only a special sort of bankers who allow daily interest on deposits and who for the most of their money give security.' Bagehot, p 29.

count upon a certain amount of stability in the amount of these funds, which they use to discount further bills, which in their turn serve as collateral for new loans. This operation is repeated over and over again until portfolios are built up whose value is twenty to thirty times that of the discount houses' own resources.

The discount market consists of three public companies with capital and reserves amounting to £7,500,000, five private companies with capital and reserves amounting to about £2,250,000, fourteen private partnerships owning resources of about £5,000,000, and finally eight others termed 'running brokers' who are merely intermediaries.

The total, therefore, of the market's own resources is approximately £15,000,000, and is divided up amongst the following houses:

Three Public Limited Companies

Founded	
1810	Alexanders Discount Co. Ltd.
1856	National Discount Co. Ltd.
1885	Union Discount Co. of London Ltd.

Five Private Limited Companies

1908	Cater & Co. Ltd.
1925	Fairfax & Co. (Ltd. since 1930)
1867	Gillett Bros. Discount Co. Ltd.
1859	Reeves, Witburn & Co. Ltd.
1891	Smith St. Aubyn & Co. (Ltd. since 1931)

Fourteen Private Companies with Unlimited Liability or Partnerships

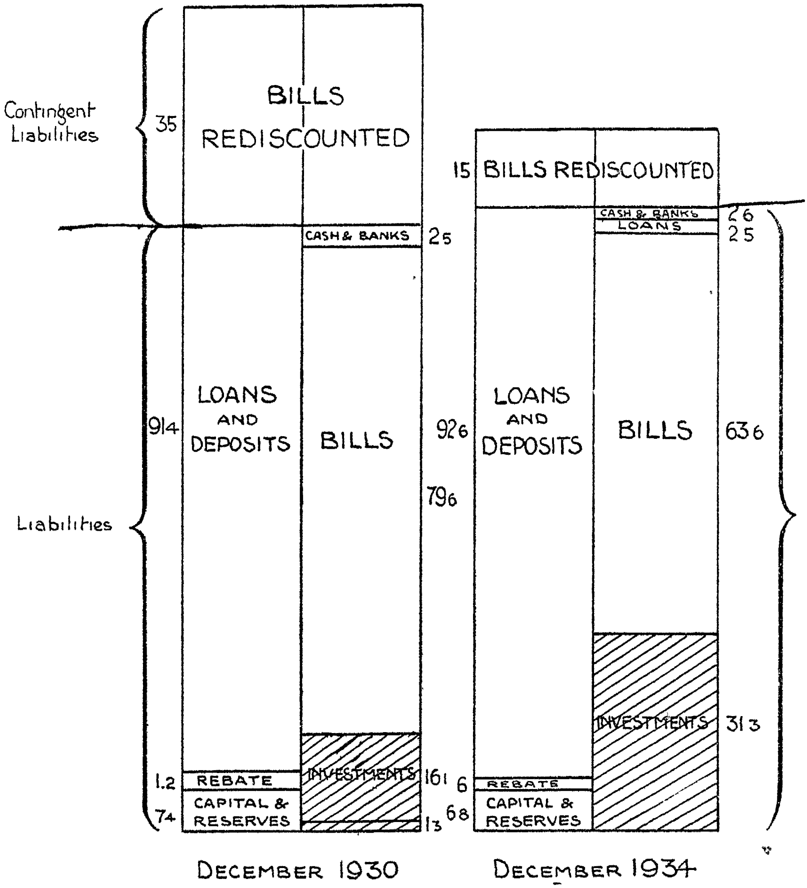
1888	Allen, Harvey & Ross & Co.
1895	William P. Bonbright & Co.
1860	Brightwen & Co.
1924	Brocklebank, Hoare & Brown
1819	Roger Cunliffe, Sons & Co.
1913	Daniell Cazenove & Co.
1820	Hohler & Co.
1922	Jessel, Toynbee & Co.
1914	Jones & Brown
1886	King & Shaxon

1866 Lyon & Tucker
1903 Ryder Parker & Co.
1922 Seecombe, Marshall & Campion
1901 Henry Sherwood & Co.

Eight Running Brokers, having no Account at the Bank of England

It is somewhat difficult to prepare a theoretic balance sheet for a firm of bill brokers. Only the three big public companies, the discount houses, publish complete balance sheets, the remainder — with the exception of Gillett Bros. Discount Co. Ltd. —either publish nothing at all or limit their publicity to certain figures. We have, however, been able to obtain the balance sheets of several of these private firms during the last few years, supplemented by additional information which we have obtained in confidence, and from these we have evolved the two tables which will be given in the following pages. We think that it is advisable to differentiate between the great discount houses on the one hand and the bill brokers on the other as their policies present certain noticeable differences.

Although the three discount houses all present their balance sheets in somewhat different manner, it is possible to reduce them to a common form, and, this done, the relationship between the different items appears to be approximately the same for each house. The theoretical balance sheet on the next page which has been compiled from the balance sheets at the end of 1930, gives a correct view of their position.



THEORETIC BALANCE SHEETS OF THE DISCOUNT HOUSES

On the liabilities side we see that the discount houses maintain a proportion of 1 to 12½ between their own resources and those which they receive or borrow.

In actual fact, if we could bring into consideration the very considerable hidden reserves held by these companies

we should no doubt find that the proportion is nearer 1 to 10. Part of these hidden reserves arise from the re-discount reserve made on the bills, when that re-discount is calculated at a higher rate than that at which the bills were originally purchased.

The discount houses obtain fairly considerable deposits from foreign banks or from the English public. They pay interest which is, as a rule, $\frac{1}{4}$ per cent higher than that given by the joint stock banks. Their main resources are, however, provided by day-to-day loans.

On the assets side, 'cash and balances with banks' is only 2·5 per cent of the total. In actual fact the discount houses have only in exceptional cases to meet demands for repayments which necessitate the reduction of their cash balances. They keep an account with the Bank of England in order to facilitate their settlements. Furthermore, on account of the specially close connections which they usually possess with one another or of the clearing banks, they generally keep an account with that particular bank with which they usually deal. Except for these points, the item of cash is only of secondary importance to them, as, if they have to make repayments of deposits they can usually substitute a new lender for the one who withdraws. Should this prove impossible, they will either cash bills which are falling due, or sell some of the bills in their portfolio. Finally, as a last resort, they can obtain assistance from the Bank of England in the form of re-discounts or of an advance.

The bill portfolio is obviously the principal item in such a balance sheet.

The constant risk of withdrawal of the funds with which these houses work obliges them to exercise great prudence, and to choose only such employment for their funds as are particularly safe, and which constitute an asset which can be 'mobilized' at any moment. Bank bills and Treasury

bills essentially fulfil these requirements, and they constitute nearly the whole of the portfolios.

Nevertheless, in order to increase their profits, and sometimes in order to meet certain customers, the discount houses sometimes include in their portfolios bills which would not be re-discountable at the Bank of England, as, for example, ordinary commercial bills, three months, six months or one year bills issued by certain British or foreign public authorities, acceptances of London branches of foreign banks, and even foreign bills domiciled for payment in London. The discount houses strive to get into touch with foreign traders and industrialists in order to obtain from them, for discounting, the bills which are drawn upon London in accordance with acceptance credits. In order to induce them to do this they have to offer them some advantages and, not being able to grant advances like a bank, they may have to discount these foreign domiciles for which no market exists and which are really a lock-up.

The bill brokers hold only securities for which there is a ready market and for which the quotations are as stable as possible. British Treasury bonds having a life of a few years, or Indian Government Treasury bonds guaranteed by the British Government, are usually the kind of securities which appear in their balance sheets when details of investments are given.

It is of interest to note that the bill brokers have a special interest in holding Treasury bonds or other gilt edged in small denominations of £100 to serve as the 'margin' which they give with their collateral.

The great discount houses, who possess large capital resources, as well as many deposits with fixed maturities, can hold a fairly large portfolio of securities, and they would appear to have adopted a policy of holding 10 per cent to 15 per cent of their assets in this manner, even

increasing the latter figure when commercial bills became more rare.

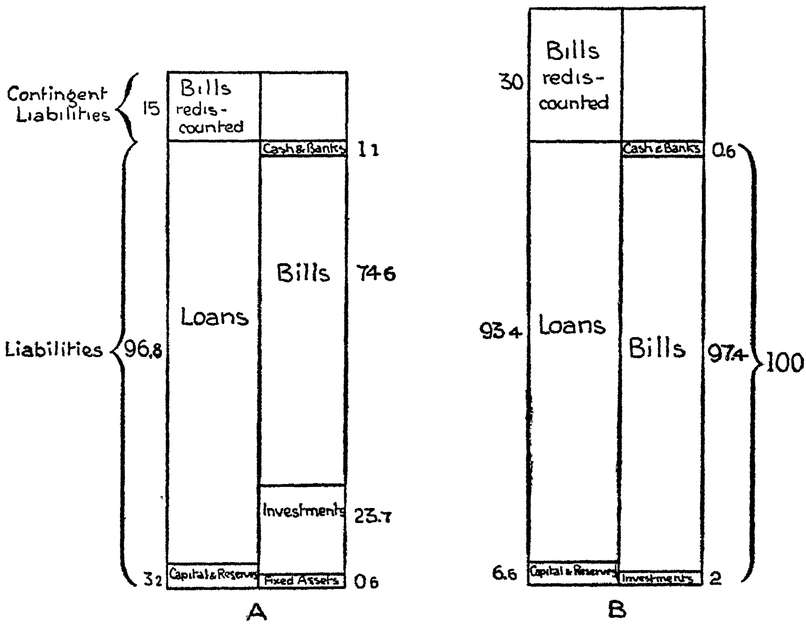
We should mention that these balance sheets show a contingent liability, in that the bill brokers guarantee, either by endorsement or more often by a general letter of guarantee, the payment at due date of such bills as they have sold. The total of bills sold or re-discounted but not yet due, constitutes therefore a risk which is counterbalanced by a corresponding claim against the drawers, acceptors or endorsers of the bills in question.

In actual fact certain houses show these bills in one part or another of their balance sheets, whilst others indicate simply in a footnote the value of the bills re-discounted and not yet due. This latter procedure seems to us the clearer and we have therefore shown these bills outside the theoretical balance sheets which we have compiled, treating them in the same manner, as we have previously treated the acceptances of the deposit banks. The risk is here lessened by the fact that two or three signatories would have simultaneously to default before the responsibility of the bill broker would come into force, especially as the accepting banker must pay the bill at maturity irrespective of the fact that his customer may default. Nevertheless the question is far from being a theoretical one only, and its practical aspect was evident on the occasion of the German moratorium in 1931. On that occasion the bill brokers found themselves holding or guaranteeing a number of bills whose German drawers were defaulting, with a consequent risk that the London acceptors might not be able to pay. Fortunately this has not so far come to pass.

This contingent liability varies considerably from one discount house to another, and in each house, from one period to another. It varies with the turnover, it varies, too, with the proportion of Treasury bills amongst the bills sold

(these do not constitute any liability for the bill broker). We understand that the Bank of England estimates that in normal periods a discount house can assume a contingent liability in bills re-discounted up to five times its own resources.

The balance sheets of the various firms of bill brokers are somewhat different to those of the discount houses, and in addition, they vary very considerably amongst themselves. We illustrate two extreme cases in the following graphs (1930):



In the first place the bill brokers have ordinarily very modest capital resources in comparison to their liabilities. Their capital rarely exceeds $\frac{1}{20}$ and is sometimes only $\frac{1}{30}$ of their liabilities. These liabilities are mainly made up of day-to-day loans from London banks. The bill brokers de-

pend too much on these banks to risk competing with them to a certain extent by accepting fixed deposits, a procedure which the discount houses are, however, in a better position to adopt. Lastly the bill brokers reduce their balances in cash or in the banks to a strict minimum. They employ practically the whole of their available funds, especially as they have no funds locked up in buildings, being content usually with modest office accommodation which is usually rented.

Having noted their common tendencies we will now examine the very great differences in the policies followed by the firms 'A' and 'B'.

'A' has not hesitated to borrow up to thirty times its capital, which leaves the lenders with a very narrow margin of guarantee. On the other hand instead of guarding very carefully the liquidity of its assets, this house has invested a quarter of its funds in securities. However well chosen these latter may have been, it would appear that a panic on the Stock Exchange might make them unsaleable, whilst a great national crisis would very gravely depreciate their value. The occurrences at the end of 1931, which caused 'gilt edged' to depreciate by 10 per cent, furnishes a striking example of the risk involved. We can easily see that the firm of 'A' would have had to suspend payments under such circumstances had their creditors not assisted them. It is evident that they would have endorsed a certain number of German moratorium bills in which their guarantee might be called up from one day to the next in the event of the failure of a London acceptance house. These liabilities would thus be increased at the same time as their assets were being reduced. The crash would come even more rapidly by reason of the fact that the bill brokers are always obliged to give a margin of collateral security over and above the exact amount of their loans, a margin which is

indeed very small when dealing with the ordinary banks, but which reaches 5 per cent when dealing with the Bank of England.

We have emphasized this extreme example,[1] but we must recognize, nevertheless, that the majority of bill brokers follow a more conservative policy such as that expressed in the graph under 'B'. The ratio of own resources to money borrowed is increased to $\frac{1}{15}$, and the proportion of securities amongst the assets is very low, being only 2 per cent.

The conclusion of a balance sheet is a profit and loss account. How, then, do the London discount houses make their profits?

For the most part these arise from the difference between the average rate which they pay for their day to day loans and the average rate earned on the bills and bonds in their portfolios. During normal times the former is usually maintained close to the rate demanded by the clearing banks, that is to say 1 per cent under bank rate, whilst three months bills are usually round about $\frac{3}{4}$ per cent under bank rate, with a higher yield on bonds. The margin between these two rates furnishes the principal source of profit for the bill brokers.

Other factors intervene, however, which increase or reduce these profits. In the first place there are the profits realized by the sale to British or foreign banks of bank or Treasury bills obtained 'at the source' by discounting for the drawers or by tenders. These bills are sold by the brokers with a variable profit usually between $\frac{1}{16}$ and $\frac{1}{8}$ per cent, but sometimes more, especially if they have been carried for some time by the brokers.

[1] It is important to realize that the position of 'A' would not be so serious, were it to be a partnership or unlimited company instead of a limited company, as in the former cases the capital of the firm would be reinforced by the private fortunes of the partners. We believe that for this reason the Bank of England does not wish that firms with resources lower than £500,000 should turn themselves into limited companies.

It is obvious that an unexpected change in the bank rate can rapidly cause a gain (if the rate is lowered) or a loss to the bill broker (if the rate is raised). It is, however, only rarely that such movements are sudden and unexpected, as the market generally anticipates any action on the part of the Bank of England, such anticipation being reflected in market rates. The market is then able to take the necessary measures to avoid the effects of too sudden a change. If they anticipate a reduction in the rate, the bill brokers try to keep all their 'long' bills, whilst if they take the contrary view they endeavour to hold only 'short' bills.

Finally the manipulation of their portfolios of 'gilt edged' and Treasury bonds gives the brokers the opportunity of earning quite considerable profits. This is aided by the fact that the bill brokers frequently carry out operations in Treasury bonds direct with banks or assurance companies, thus enabling them to take advantage of small differences in quotations which would not allow of a profit on the Stock Exchange because of the brokerage which would be payable to the stockbroker.

THE PRACTICE OF 'DAY-TO-DAY LOANS' AND OF 'FIXTURES'

We shall see later[1] first how far it is possible to estimate the total amount of funds lent to bill brokers — that is to say to the discount market — and secondly how far the origins of these funds can be specified. We shall content ourselves for the moment by indicating how the discount houses obtain their funds in actual practice.

These funds can be divided into two classes — call money and short notice money. The call money is usually known as 'day-to-day' loans and the short notice money as 'fixtures'.

[1] See Part II, Ch. II, 'The resources of the Money market'.

The lenders — clearing banks, acceptance houses, foreign or colonial banks, and assurance companies — usually maintain large sums with the bill brokers. These funds are, in practice, fairly constant in quantity but the lenders reserve, of course, the right to withdraw them wholly or in part, after a short notice. These sums are the 'fixtures' on which the broker can count, and for which he pays a rate of interest which is fixed from week to week. On the other hand each morning the bank manager in charge of the treasury position of his establishment makes up a statement showing the movements of funds for the day, both in and out. If, after allowing a margin for contingencies, there is a credit balance, the banker can lend this amount until the next day, or even for several days if he anticipates further receipts of funds. After 10.30 a.m. he is visited by the brokers — wearing the traditional top hat — who will borrow this money either for a week, a few days, or for one day only. The rate is usually fixed on the spot, but lenders other than deposit bankers often leave the rate open until the next day. The rate is then fixed by common consent in accordance with the scarcity or abundance of money during the previous day. If the fresh money which is lent to them is likely to remain with them for some time, the broker considers it as 'good money'; if, however, it looks like being withdrawn at the end of one or two days, it is then 'bad money'. There are usually two different rates of interest for these day-to-day loans, the differentiation being made if the money remains with the broker for more than twenty-four hours or not. In the first case it is 'old money' and in the second 'fresh money', and the rate of interest for old money is more constant than for fresh. Suppose, for example that on one particular day the two rates coincide at 2 per cent, and that the money market becomes suddenly restricted. The broker will be prepared, the next day, to

pay up to $2\frac{1}{2}$ per cent and $2\frac{3}{4}$ per cent for fresh money, whilst the old day-to-day loans will probably be renewed at $2\frac{1}{4}$ per cent. On the contrary, if money is plentiful the bankers will only be able to place their fresh money at $1\frac{1}{2}$ or even $1\frac{1}{4}$ per cent, whilst the brokers will still be paying $1\frac{3}{4}$ per cent on old money. Fixtures benefit by a more constant rate which usually remains at 1 per cent below bank rate.

This market custom can easily be justified by the fact that it is in the broker's interest to obtain stable loans, rather than funds which come in the market as the result of some unexpected or exceptional movement.

If the banker's daily treasury position shows a balance of outgoing funds, instead of offering money to the brokers, he withdraws a part of his day-to-day loans. These operations are carried out by the big banks in amounts which may well reach several hundred thousand pounds for each broker, whilst the other banks deal in lesser units such as £50,000, £25,000 and even £10,000.

When the withdrawals of the big banks are heavy, some of the brokers can be seen making a second round of the City after lunch looking for fresh money, whilst their partners telephone to other non-clearing banks in order to induce them to reduce in their favour the balances held with the clearing banks. The banker sometimes finds himself in receipt of unexpected money towards the close of the morning or in the beginning of the afternoon and he then telephones the brokers to offer them fresh money.

The essential principle, as outlined by Mr. R. H. Foà before the Macmillan Committee, is that, when a banker withdraws money from the market, the brokers have to discover the banks which have received the resultant payments and who are in consequence in possession of surplus funds. This state of affairs must exist unless the payment

has been made to the Bank of England or abroad (by exporting gold).

After returning to their offices from their round of the banks, the brokers send their messengers to the banks who are lending money. These messengers hand over to the bank the bills which are to be given in guarantee, in return for a cheque or bankers' payment for the amount of the loan. On the other hand the messengers hand a cheque to those banks who are calling, receiving in return the bills which have been deposited as a guarantee for the loan now being repaid. These bills are made up into 'parcels', which are bundles of bank bills or Treasury bills made up into packets of a minimum value of £5,000 each. The value of the bills so deposited in guarantee is slightly higher than the amount of the loan, the margin serving to provide a cover for interest.

The 'parcels' circulate round the market with the greatest of ease. The messenger who picks up a parcel from one bank, deposits it a little farther down the street with another bank as cover for a new loan. If, during the course of a loan, the broker has need of certain bills, which are included in a particular parcel, he simply sends a further parcel to the bank in exchange for the one that he wants.

The bill brokers do sometimes give 'gilt edged' as cover for loans. We have however already seen that there is some danger in their having fairly large holdings of securities, and there are some banks who discourage this practice by refusing to lend on any guarantee other than bank bills or Treasury bills.[1]

It is as well to mention here that the lending banker can always demand a new parcel as cover if the one offered does not satisfy him. It might, for example, contain a high proportion of bills accepted by one house with whom the

[1] See pp. 310, 311.

lending banker has already reached his limit of risk, or it might contain more than 10 per cent of 'foreign agencies' bills, or, lastly it might, as we have just seen, contain government securities.

At the end of the quarter, when money is particularly in demand, the banks have to increase their cash and their balances with the Bank of England in order to be able at the same time to meet demands for withdrawals, and to preserve their liquidity. They accomplish this by calling a part of their day-to-day loans, and by ceasing to buy bills. Both of these measures react directly upon the discount houses whose funds are suddenly reduced whilst they find it difficult to reduce their assets accordingly. They are thus forced to turn to the Bank of England which gives them assistance in two ways, by discounting their bills, and by granting them advances. This aid from the Bank sometimes reaches several tens of millions of pounds.

THE VALUE OF THE DISCOUNT MARKET

The organization which we have just described is unique in the world. There is no other financial centre possessing a money market dependent upon three months' commercial or Treasury bills, financed by specialized houses. The only other great money market which can be said to be organized is that of New York, which depends almost entirely on loans made against securities to the Wall Street stockbrokers. The stock exchange crashes of 1929-1931 showed very plainly the instability of such a market, as well as the advantages possessed by the organization which has been created by the London bill brokers.

The value of the bill broker was made apparent when we showed how they provided the London bankers with an immediate investment for their surplus liquid funds

direct. The activities of the Midland Bank in this connection are especially noteworthy.

The very close contact maintained by the broker with the numerous banks enables him to keep himself well posted as to the individual position of each one, and as to the way in which they regard one another. He finds means to estimate the amount of paper circulating with the acceptance or endorsement of each one of them, and if the amount becomes excessive, he is the first to perceive this from the fact that several of his clients will be refusing to increase their risks on this or that name.

Lastly the bill broker renders services to the sellers of bills, be they traders, industrialists or bankers. Generally speaking, the money market makes the financing of commercial operations much more easy, but the bill broker also renders a particular service to the seller in that the seller of a bill who offers it direct to a bank runs the risk of obtaining a less favourable rate by virtue of the fact that the due date of the bill may be one which is an inconvenient one for the banker. The bill broker, on the contrary, can always give the best rates, because he is certain to find somewhere amongst his customers a bank desirous of obtaining bills with that particular due date.

The advantages of the special organization of the London money market and of the institution of bill broking are many and great. It would be, however, very difficult to transplant this organization outside the limits of the City of London, as we shall see in the chapter of this book which has been devoted to a comparison between the English system and that current in France.

CHAPTER IV

THE ACCEPTANCE HOUSES

THE greatest characteristic of the merchant bankers is the international aspect of their activities. They are above all purveyors of credit either for foreigners or for English houses who have foreign customers or suppliers.

They are the most active agents in the financial and commercial expansion of Great Britain, an expansion which they assist very materially firstly by granting short term commercial credits in the form of bank acceptances, secondly, by arranging financial credits through the issuing of short term bonds, and lastly by the issue of long term loans, which they place in London for account of foreign industries or even foreign governments.

Sir Robert Kindersley emphasized the consequences of these activities for the prosperity of Great Britain in the following terms: 'It was largely through the channel of these merchants that England was enabled to take such a leading part in the building of railways and other developments abroad to the great advantage of our export trade, and also that London became the market and distributing centre for such a large number of raw materials and other commodities.'[1]

A great number of the merchant bankers date from the commencement of the nineteenth century. Holland had been beaten in an unlucky war and had lost the greater part of her Indian possessions as well as a number of her vessels. At the same time her financial prestige had

[1] 'Macmillan Evidence', Q. 1133.

been badly shaken by the failure of the Bank of Amsterdam, already nearly two centuries old, in 1796.

England had firmly secured her position in the richest parts of India, whilst the port of London had made gigantic strides and had become the world centre for the *entrepôt* trade. The wars of the French Republic and of Napoleon in Europe stimulated commerce and industry in England and gave rise to a multiplicity of demands for credits. The Continental blockade caused the development of a trade in contraband goods which was as remunerative as it was audacious.

Merchants and financiers from Germany, Holland and Denmark established themselves in London.

Having a shrewd sense of practical affairs, and having themselves carried out various trades, these foreigners, frequently Jews, realized that London was destined to become the commercial and financial centre of the world. They promptly established agencies and branches here. These branches were subsequently to become the central offices of many of these families of international merchants and bankers such as the Rothschilds, the Schröders, and the Hambros.

Some Englishmen, such as Anthony Gibbs and Brown Shipley, imitated them, but these remained in a minority as can be seen from the following list which gives the oldest of the London merchant banking houses, and which indicates their origins and the dates of their foundation.

This list illustrates another statement of Sir Robert Kindersley.[1] 'Practically every acceptance house of old standing in this country commenced purely as merchants trading with foreign countries and a great many of them, most of them, I think, are of foreign origin.

[1] 'Macmillan Evidence', Qs. 1129-1131.

Founders	*Name*	*Origin*
1770	Baring	Bremen
1795	H. S. Lefevre	
1804	J. Henry Schroder	Hamburg
1805	N. M. Rothschild	Frankfurt
1805	Wm. Brandt, Sons & Co.	St. Petersburg
1808	Antony Gibbs & Sons	
1809	Frederick Huth	Hanover
1810	Brown Shipley	
1812	S. L. Behrens	
1814	Fruhling & Goschen	Leipzig
1830	Hambro	Copenhagen
1830	Kleinwort	Holstein
1831	M. Samuel	

'To-day the great majority of them are of English nationality and have merged their personalities in the country.'

The exceptionally high reputation attached to the signatures of these houses caused the birth of a new form of credit, or rather stimulated the extension of a form of credit which had not previously been systematically used; namely the acceptance credit.

The granting of acceptance credits was, during the whole of the nineteenth and the beginning of the twentieth centuries, if not the exclusive province, at least the dominant activity of the merchant bankers; so much so, indeed, that they are often better known under the title of acceptance houses. We shall see, however, that these houses do not to-day provide the London market with more than a part of the acceptances which are negotiated.[1]

By the very nature of their activities these merchant bankers were the first to distribute this type of credit. Merchants very quickly perceived that the banks were ready

[1] See p. 259.

to discount, at their best rates, such paper as bore the signatures of certain great reputable houses in the City. It was not long, therefore, before these merchants were requesting the houses in question to place their signatures on their bills.

These acceptance houses did not limit their activities exclusively to one country or to one commodity or raw material. Nevertheless each house had its own special realm, both from the geographical point of view and for that of the merchandise dealt in.

Within these realms, the merchant banker (one for wool, another for timber, a third for wheat) became a sort of ruler and his perfect knowledge of the market enabled him to guarantee deliberately transactions of whose healthy commercial nature he was perfectly aware, and whose parties he knew to be solvent. His guarantee was given in the form of the acceptance of commercial bills which might be drawn upon him. It was naturally understood that the debtor on whose account he accepted the bill would provide the necessary funds to meet the bill before the due date. Without expense, therefore, he collected a commission for simply lending his signature in order to make a bill negotiable at the best rates.

This system is still the one in use to-day and there should be no need to stress the advantages which it has for all parties,[1] the great development which it made during the course of the nineteenth century being sufficient testimony. The system proved to be a flexible one and it was not only imports which were financed in this manner by the acceptances of the London merchant bankers, but exports as well.

The position of London in world trade seemed always to increase, until an enormous percentage of the world's

[1] See Part II, Chapter III, pp. 250-1.

merchandise was carried under the British flag. The prestige of the pound sterling, the only coin freely and constantly interchangeable for gold, became such that the whole world's traders opened accounts in London. The system of bank acceptances passed into its last stage of development when it began to serve to finance the transfer of goods between one foreign country and another, the foreigners thus paying tribute to British credit and to the honourableness and ingenuity of its merchants.

This financial prestige, allied to Great Britain's maritime power, made the port of London a market and centre of distribution for vast quantities of raw materials and overseas products. On the banks of the Thames new docks were constantly being built, through whose gates the most diversified products passed. Close handy, in the City, new produce exchanges were opened alongside the older ones, whilst these latter were themselves developing continuously.

New houses were founded to satisfy the constantly increasing requirements for credits of all kinds.

Founders	*Name*	*Origin*
1833	Arbuthnot Latham & Co. Ltd.	
1836	Guinness Mahon & Co.	
1838	Morgan Grenfell & Co. Ltd.	United States
1853	Erlangers Ltd.	Germany & France
1864	Seligman Brothers Ltd.	Germany & America
1872	A. Ruffer & Sons Ltd.	France
1873	London Merchant Bank Ltd.	ex Hanseatic Bank
1877	Lazard Brothers & Co. Ltd.	U.S.A. and France
1889	Grace Brothers & Co. Ltd.	America
1907	Higginson & Co.	United States
1921	S. Japhet & Co. Ltd.[1]	Germany

[1] Founded in 1880 as a broker's firm.

These newly formed banks, like their older confrères, did not limit their activities to the granting of acceptance credit.

From the beginning of the nineteenth century, foreign governments had no scruples about using the wealth of these rich bankers. Rothschild lent money to the sovereigns of Central Europe, Baring to the Russians and South Americans, Hambro to the King of Denmark and later to the Greek and Norwegian Courts. If these governments were not in a position to repay these loans when they fell due, they entrusted the banker with the issuing of a public loan.

The British government, too, was not above making use of their services. (It was Rothschild who made possible Disraeli's purchase of the Suez Canal shares.)

In this fashion the 'merchants' became 'merchant bankers' and were furthermore evolving more and more into pure bankers. They were, however, specialized bankers, dealing with certain foreign countries and with certain types of operations. They were bankers nevertheless, having ceased to carry out merchanting operations for their own account, and having, on the contrary, increased and diversified more and more their banking operations. They now received deposits, granted loans, and saw to the placing and management of foreign issues.[1]

The war brought about a new phase of evolution in the merchant bankers. The guarantee which the acceptor gave to a bill of exchange was brought into play with very great suddenness by the events in 1914. The moratorium which was declared at the beginning of August 1914 did indeed prevent the failure of several houses, and the Bank of England had to give its support to some of them in order to enable them to put their houses in order. This should have resulted in an increase in the rate of the acceptance commission, a rate which really acted as a species of credit insurance premium. Owing to the growth

[1] It is charcteristic that having absorbed the British Bank of Northern Commerce in 1920 the house of J. C. Hambro & Sons took the name of Hambros Bank.

of fresh competition both from new London houses and from abroad, this increase did not come about. The competition resulted instead in a reduction in the rate of these commissions. The risk was becoming very great for those merchant bankers who had not hesitated to accept bills for an amount equivalent to three or four times their own capital. Nearly all of these houses had, prior to the war, adopted the legal form of a partnership, in which the liability of the individual partners was unlimited. This legal form had contributed very largely in the past to the growth of their reputation, but it was a form which began to be too dangerous, especially in a world profoundly upset by the war and its consequences.

The house of Baring in 1890 was the first to adopt the form of a limited company as a result of a crisis which it was only able to surmount with the aid of the Bank of England.[1]

A number of other private partnerships were turned into limited companies after the war.

In 1919 Lazard Bros. became a private limited company. In 1920 C. J. Hambro & Sons amalgamated with the British Bank of Northern Commerce Ltd. and changed into a public limited company; in 1923 A. Ruffer & Sons, and in 1923 Seligman Bros. followed suit. Finally in 1930 an old-established house became a private limited company.

We have seen that it has only been since the war, and especially since the depression of 1920-21, that the majority of the merchant bankers have abandoned the legal form which made the partners responsible to the extent of their entire personal fortunes for the debts of the bank. This movement denoted a state of disquietude and showed that they were fearful of being submerged if they assumed too heavy risks.

[1] See p. 46.

In becoming more and more like bankers and less and less like merchants, the merchant bankers had gradually lost that close contact which had originally connected them with certain branches of commerce. The world-wide economic disorder after the war resulted in a rupture of the relationship which had existed with foreign merchants and industrialists, and the general uncertainty led the acceptance houses in many cases to grant their credits only through the intermediary of foreign banks, and with their guarantee.

This system is known as reimbursement credits. Instead of dealing direct with the foreign exporter or importer, the English bank gives a credit to a foreign bank (amounting, for example, to half a million pounds) and the foreign banker uses this credit in favour of its clients. The foreign banker authorizes its clients to draw on the London acceptor to whom he gives his guarantee. The foreign banker naturally charges his client a commission and the commission of the English banker is reduced accordingly.

This form of credit did indeed exist prior to the war, but it is mainly since the war, and for the reasons which we have outlined above, that the system of reimbursement credits has been largely developed. It would appear that the acceptances given under such conditions were greatly increased after the end of 1927.

England and foreign deposit banks, and in particular American banks, began actively to compete with the acceptance houses on the London market with regard to this business of reimbursement credits. There is after all no particular need to have old-established family connections abroad in order to grant credits from one bank to another. This competition on the part of the acceptors caused a further reduction in rates.

The usual acceptance commission in pre-war days was

from 1½ to 2 per cent per annum. For reimbursement credits the acceptance houses asked 1 per cent (or ¼ per cent quarterly), but the commercial banks were satisfied with ½ per cent (⅛ per cent quarterly), and the acceptance houses were compelled to follow suit, with the result that the ordinary acceptance commission fell to 1 per cent and even ½ per cent. An animated controversy broke out between the banks and the acceptance houses on the subject of these rates. The banks maintained that the risk involved in these reimbursement credits was so small that a commission of ½ per cent was perfectly justified, whilst the merchant bankers replied that the rate could be kept at 1 per cent by means of an understanding and that the volume of business would not be materially decreased thereby.[1]

Experience has proved that even reimbursement credits are not exempt from risk. In actual fact, having regard to the extremely close relationships existing between the London acceptance houses and on the one hand central Europe and Germany and on the other South America, there is little doubt that these houses were amongst those which were most affected by the crisis of 1931.

Their position will be more easily understood if we examine the close relationships which connect these houses with abroad, and if we consider their balance sheet figures for several years.

NOTES ON SOME ACCEPTANCE HOUSES[2]

We give, hereafter, some notes on each of the acceptance houses with a more detailed description of certain of them.

The list of directors or partners given shows plainly either

[1] See the controversy between Sir Robert Kindersley and Mr. McKenna ('Macmillan Committee Evidence', Qs. 1161-1184).

[2] See also Appendix IV, which gives certain balance sheets.

the family character of these houses, or their foreign origin, and frequently exhibits both these characteristics together.

We have classified the acceptance houses in three groups according to their approximate size and to the nature of their activity:

1st group: Baring, Hambros, Lazard, Morgan Grenfell, Rothschild, Schroder.

2nd group: Brown Shipley, Erlangers, Kleinwort, Samuel.

3rd group: Arbuthnot Latham, W. Brandt, Anthony Gibbs, Goschens and Cunliffe, Grace, Guinness Mahon, Fr. Huth, Japhet, H. S. Lefevre, London Merchant, Ruffer, Seligman.

1st Group. The first group covers six houses which beside their main activity as acceptors, have probably issued the majority of foreign loans in London.[1]

BARING BROS. & CO. LTD., London and Liverpool. Directors: A. Mildmay, Hon. A. Villiers, Sir Edward R. Peacock, E. Bingham Baring, Sir Edward J. Reid, Bart., the Hon. A. F. Baring. (Sir Edward Robert Peacock is on the Court of the Bank of England.)

The house of Baring is the oldest of the group. It was in 1717 that John Baring migrated from Bremen to England, where he married and established himself as a wool merchant in Exeter. His three sons joined the business and formed a firm in London in 1763. They soon made a valuable alliance with Hope & Co. of Amsterdam, who were probably the most powerful of Continental bankers then, and extended their business from wool to other commodities and to shipping. Lloyd's records shows a Baring ship insured as early as 1766, and the flag of the line is proudly flown at the top of the offices in Bishopsgate where the Barings have been trading since 1811.

Of these three Barings, the second, Francis, became

[1] 'Macmillan Evidence', Q. 1310. Sir Robert Kindersley

chairman of the East India Company and whilst in Parliament William Pitt made him a baronet in 1793.

Sir Francis had four sons, three of whom became partners, and two of these married the two daughters of William Bingham, a very rich merchant of Philadelphia and friend of George Washington. Thus Baring Bros. & Co. became bankers of the United States government and developed the financial side of their business.

Their most notable enterprise was the issuing, in joint account with Hope & Co. of Amsterdam, of a French loan after Waterloo, a rather delicate operation which was quite successful and very remunerative.

In 1824 a 6 per cent loan was issued for the 'State of Buenos Aires', commencing the numerous transactions which the firm has since made with South America.

Later the Barings and their American agents developed their operations with the States and many American railroads were built with the money raised by the issue of 6 per cent first mortgages bonds.

Simultaneously, Thomas Baring, then the leading spirit of the firm, found money, in alliance with Messrs. Glyn & Co., for the Grand Trunk Railway of Canada and for the Canadian government itself, and became banker and financial adviser to the Tsar Nicholas after the Crimean War.

Through the 'seventies and 'eighties the merchant and shipping business was gradually given up whilst the financial business was expanding, notably through the increase in acceptances granted.

A depression following a revolution in the Argentine led to the Baring crisis in 1890. The assets exceeded the firm's liabilities but were frozen and the Bank of England had to lend its support to Baring Bros., who, however, re-established themselves in a few years.

They reconstructed their business as a limited company and as such publish their figures (*see* Appendix).

We learn from these that the outstanding acceptances which had exceeded £9 millions in 1928 have shrank to about £2 millions since 1931. This reduction whilst partly due to the contraction of international trade and the fall in prices, must also be to a certain extent the result of a policy of caution. Furthermore the rapidity of the contraction in the acceptance business after 1931 shows that Baring was not deeply involved in countries where moratoria prevail.

The figures for deposits are the highest published for an acceptance house. They have been fairly stable between £17 and £22 millions for the past eight years. It is said that funds of the Russian Imperial government still account for several millions in these deposits.

HAMBROS BANK, LTD. Directors: R. O. Hambro, G. d'Abo, Ch. Hambro, J. Hugh Smith, J. H. Hambro, Sir K. Knudsen, Sir Joseph Priestley, K. Wallenburg, Lord Glenconner, Col. H. Hambro, Sir Thomas Fearnley. (Ch. Hambro is on the Court of the Bank of England.)

The founder of this house, Joseph Hambro, was born at Copenhagen in 1780. At the commencement of the eighteenth century he became court banker to the King of Denmark and later to the Kings of Sweden and Norway. His son, Charles Joachim Hambro, established himself in London in 1839.

From that date onwards C. J. Hambro represented Scandinavian interests in London, including those of the Scandinavian governments.

When in 1848 the epidemic of revolutions spread northwards and menaced the Danish throne, C. J. Hambro placed a large sum at the disposal of the Danish Minister

of War and was created a baron in recognition of his loyalty. In 1863 he issued a loan of half a million pounds for Denmark during the Schleswig-Holstein dispute, and a further loan of £1,200,000 after the Danes had been defeated by the Prussians in 1866.

His enterprising genius did not limit itself to the northern countries. In 1851 he had the foresight to trust in Cavour at a time when the prospects of the Rissorgimento were very uncertain and by a loan of £3,600,000 to the kingdom of Sardinia 'took Piedmont out of pawn' and considerably helped the government of Victor Emmanuel.

Later when Italy adopted the gold standard Hambro and Baring together issued the 5 per cent Italian rentes, a successful operation which enhanced considerably the reputation of both houses.

A new connection was established when a Danish Prince ascended to the throne of Greece as King George I. C. J. Hambro became banker to the kingdom and, as such, issued the first loan for Greece in 1881.

Since then Hambros have placed numerous loans for these countries and for Russia, Hungary, Finland, and Iceland, as well as the loan for the settlement of the Greek refugees under the auspices of the League of Nations.

The amalgamation with the British Bank of Northern Commerce in 1920 increased very greatly the general banking business of the house of Hambro which now became Hambros Bank Ltd.

Of all the acceptance houses, Hambros Bank would appear to be one of the least closely specialized either by the nature of its business or by the foreign countries with which it deals with the exception of its special Scandinavian connections.

The figure of its acceptances is fairly stable at about £10 millions; this substantial figure is however less than

twice the subscribed capital and reserves. Deposits fell from £18 to £10·5 millions in 1931 and have since risen again to £13 millions. Since 1933 Hambros have been very actively engaged in making new issues, including some issues for home industries; they also deal extensively in the foreign exchange market.

LAZARD BROTHERS & CO. LTD. Directors: Sir Robert Kindersley, Hon. R. H. Brand, G. Tyser, Hugh Kindersley, Hon. T. H. Brand, D. David-Weill, Hon. Clive Pearson, Emil Pusch, P. David-Weill and J. Tanner. (Sir Robert Kindersley has been on the Court of the Bank of England since the year 1914.)

In 1847 three brothers, Alexandre, Lazard and Simon Lazard left Lorraine to start a small merchant business in New Orleans. A few years later they moved to San Francisco where great developments were taking place following the discovery of gold in California. The business prospered and they opened a branch in Paris in 1856 as Lazard Frères. In 1870 a branch was formed in London under the name Lazard Bros. & Co., in order that, notwithstanding the moratorium in France during the Franco-Prussian war, the Paris firm should be able to maintain regular payment of its maturing bills.

In 1877 the firm was transformed into a general banking business in San Francisco, Paris, London, and New York where a new branch was opened.

In 1884 the San Francisco business was sold.

In 1919 the London firm became a private limited company and S. Pearson & Sons Ltd. took an interest.

The subscribed capital is £3,375,000 (£2,250,000 paid).

Lazard Bros. has obtained a very important position on the London market by its issues and its acceptances, and

also plays an active part in the foreign exchange market. This activity is facilitated very greatly by the existence of its associated houses in Paris and New York.

Its chairman, Sir Robert Kindersley, has played a leading part since the war in the financial negotiations between England and France.

During recent years, with foreign lending virtually suspended, Lazard Brothers have taken a more active interest in issues for important public utility and industrial companies in England.

MORGAN GRENFELL & CO. LTD. Managing Directors: E. C. Grenfell, Vivian Hugh Smith, C. F. Whigham, Sir Thomas S. Catto, Bart., Randall Hugh Vivian Smith, Hon. F. J. R. Rodd. Director: John Pierpont Morgan. (E. C. Grenfell is on the Court of the Bank of England.)

It is not generally known that this firm was the parent house of the whole group of Morgan financial institutions.

It was founded in 1838 by an American citizen, George Peabody, as a merchant firm principally concerned in its early days with the shipping of steel rails to America. Another American residing in London, Junius S. Morgan, entered the firm in 1854, and later his son went to the States and founded the New York house which has earned world fame. The New York house has since established a connection with Drexel & Co. of Philadelphia and has founded Morgan et Cie, Paris.

Morgan Grenfell have carried on for nearly a century all the activities usually associated with private banking houses including acceptance and finance business. They do not appear to have ever given their acceptance on such a large scale as some of their competitors and would seem

to have adopted a policy of always diversifying their operations as much as possible.

For many years their offices and those of Hambros Bank were housed in the same building in Old Broad Street and many links united the two firms who are still connected to-day through close relationships between some of their directors.

They were also associated with Baring in many operations in the Argentine.

They issued loans for the United States, especially after the Civil War when, in conjunction with Rothschild, they provided the 'gold cushion' for the stabilization of the dollar. They also issued loans for Chile and for Spain.

Close connections with France have been established from 1870 when Morgan Grenfell issued in London at 85 a 6 per cent French loan for an amount of £10 millions (frs. 250 millions). During the late war J. P. Morgan, New York, carried out a considerable amount of financing for the Allied Countries, notably for France and Italy. Morgan Grenfell was, of course, associated with these operations.

In 1918 the partnership was transformed into a private company with unlimited liability to enable all the partners of the associated American houses, J. P. Morgan, New York, and Drexel of Philadelphia, to join the Board.

In 1934 a new alteration took place. When J. P. Morgan & Co. elected under recent American banking legislation to continue as a private banking house and forego the issuing business, Morgan Grenfell & Co. became a private limited company with a subscribed capital of £5,000,000 of which £1,700,000 is paid up.

This is the only figure disclosed, but it places Morgan Grenfell first on the list of the acceptance houses whose capital is known.

N. M. ROTHSCHILD & SONS. Partners: Lionel de Rothschild, Anthony de Rothschild.

Everyone knows that 'the rise of the House of Rothschild' began in the eighteenth century in Frankfurt-on-Main. It was from that town that Nathan Rothschild came to England in 1797 with about £20,000 which he trebled in a few years by operating in cotton goods, notably cloth for uniforms, in Manchester.

He opened an office in London in 1800 as agent for his father, and in 1805 he established himself permanently in the City where he was joined by his brother James. They soon became experts in gold and foreign currencies dealings.

Three years later the new firm began to establish its prestige by skilful financing during the Peninsular War. It was entrusted by the Government with the payment of subsidies to the allied princes on the Continent and with the transmission of remittances to the English army in Spain which was successfully carried out through France and the kingdom of Naples. In a single year these remittances amounted to £11 millions and they lasted from 1808 to 1816.

In 1812 James had established himself in Paris and in 1816 he succeeded in being appointed to receive the £120 millions claimed by the Allies as indemnity. The greater portion of that vast sum passed through the hands of Nathan in London.

Prior to that, in 1815, Nathan had made big profits by being the first to hear the news from Waterloo through his private courier. On June 20th he bought large amounts of stock in a falling market where nobody would believe the news.

His prestige and prosperity were further enhanced by the panic of 1826. Many City houses came tumbling down

and there was a run on the Bank of England when Nathan Rothschild boldly came out to offer to buy any amount of stock offered. In 1830 he again helped several houses to overcome the troubles caused by the consequences of the French revolution which brought down Charles X.

Another development was the formation in 1824 of the Alliance Assurance Co. with which a close connection has been maintained to this day.

The activity of Rothschilds as a financing and issuing house has been remarkable indeed. It has been calculated that up to 1904 the loans contracted for or participated in amounted to £1,300,000,000.

We shall just quote two of the most famous operations:

André Maurois in his *Disraeli* has told us how in 1876 Rothschild enabled the British Government to purchase for £4,000,000 the Khedive's shares in the Suez Canal.

A few years later in 1884 the Egyptian government, on the verge of bankruptcy, was saved by an advance of £1 million 'upon no legal security, but simply on the security of a private note from the Foreign Secretary'.

More recently Rothschilds have operated considerably with Brazil and Chile, in addition to which after the war they placed in London the loans for the French railways. The recent development of the London gold market has brought a very great activity to their gold refinery and bullion department. Acceptance has never been more than a subsidiary activity for this firm.

More exclusively than any other City house, N. M. Rothschild & Sons has remained a family business. Nathan, who died in Frankfurt in 1836, was succeeded by his eldest son Lionel. Baron Lionel was the first Jew to win a seat in the House of Commons. He died in 1879, the first Lord Rothschild, and his brother Leopold and Alfred

carried on the business which is now in the hands of the sons of Leopold.

J. HENRY SCHRÖDER & CO. Partners: Baron R. Bruno Schröder, Frank Cyril Tiarks, Helmut Wm. Bruno Schröder, Henry Frederic Tiarks, Veritas Trust Ltd. (F. C. Tiarks is on the Court of the Bank of England.)

J. Henry Schröder & Co. was founded in London in 1804 by John Henry von Schröder (a German baron who became an English baronet) and his brother. This house has remained a family affair supervised by a dynasty of Schröders to whom have been joined since 1847 the family of Tiarks.

The present chairman came from Hamburg and preserved his German nationality until 1914.

In the beginning, Schröders were concerned as merchant bankers, with the importation of Russian wheat into England. They very soon began to make use of their signature by selling their acceptance; but there are no precise records as to the actual period when this phase of their activities first commenced.

Their acceptance business prospered and the profits gained during favourable periods served to enhance the considerable profits which were often obtained on foreign issues.

Schröders' acceptances were mainly concerned with Russian wheat, South American minerals (copper and tin) and Chilean nitrates.

It is highly probable that Schröders hold the record during the post-war years for the highest figure of acceptances. It has been roughly estimated in the market that the figure of £15 millions for outstanding acceptances was exceeded in the prosperous years of 1928 and 1929.

Schröders have also played a considerable part in the

finance market by the issuing of numerous foreign loans, especially since 1860.

They have placed many loans for railways (Cuban, Russian, Antofogasta), for states (Sweden $4\frac{1}{2}$ per cent in 1864, Japan in 1870, and Uruguay). Their name is associated with the development of Chilean nitrates from the time of the Dreyfus contracts up to the formation of the Cosach. They have also issued several Brazilian loans (City of Santos, State of Sao Paulo, and the coffee valorization loan).

Lastly Schröders have always had very close connections with Germany. Active relationships exist between them and their cousins Schröder Gebrüder of Hamburg.

It would appear that since the war and the consequent closing down of the German banks in London, Schröders have become the financial agents in London for Germany.

2nd Group. Just as the houses which we have reviewed in the first group were characterized by their great interests in the domain of foreign issues, so those which we shall now proceed to examine are more nearly acceptance houses proper, with banking operations as an auxiliary service.

Brown, Shipley & Co. Partners: Edward Clifton-Brown, Sir James Leigh-Wood, Walter Hargreaves Brown, F. J. F. Edlmann, John J. W. Husted (U.S.A.), Anthony G. Clifton-Brown.

This firm dates from 1810, when W. & J. Brown commenced business in Liverpool. The name was changed in 1839 to the present one. In 1863 an office was opened in London and the Liverpool office was closed in 1889.

For many years Brown, Shipley & Co. were in partnership with the American banking firm of Brown Brothers & Co. in New York, Philadelphia and Boston, and their relations with Messrs. Brown Brothers Harriman & Co. — successors of the above firm — are very close and friendly.

The original merchant business developed long ago into acceptances against the movement of commodities. Brown, Shipley have been concerned with some issues, mainly colonial (Canadian).

The present governor of the Bank of England, the Hon. Montagu Collet Norman, was at one time a partner in the firm, as was also a previous governor, his grandfather, the late Sir Mark Collet.

ERLANGERS LTD. Directors: Baron Emile B. d'Erlanger (chairman), Baron F. A. d'Erlanger (vice-chairman), L. F. A. d'Erlanger, A. O. Bluth, H. D. Clive, Louis H. Kiek, R. B. H. Ottley, W. Cyril Tomlinson.

The origin of this house can be traced back to the old-established firm of von Erlanger & Söhne in Frankfurt, from whence Baron F. Emile d'Erlanger went to establish a house in Paris in 1859. The present chairman and his brother, Baron F. A. d'Erlanger, came from Paris in 1886 to join a branch which had been opened in London in 1870. They became British subjects and developed the London house with such success that it soon became the main seat of the family business and has indeed now become the only one.

Erlangers have been associated with financial enterprises in many parts of the world and have been responsible for a number of loans issued in London for foreign governments and municipalities in various parts of South America, Greece and elsewhere. They have been con-

cerned in the provision of capital for numerous British industrial and trading companies operating at home and abroad. Their greater sphere of activity, however, has probably been in South Africa where they have played a very prominent part in the financing of railways and harbours.

Acceptance business was only started in 1910 or thereabouts but has since grown considerably, and during recent years has been marked by a very remarkable increase in credit facilities afforded to the home trade. It is indeed commonly believed that, as regards the inland acceptance business, Erlangers rank among the first.

In 1928 the firm was transformed into a limited company and the paid-up capital is £1,600,000 with £325,000 reserves.

According to their published balance sheet (*see* Appendix), their total figure of acceptances at December 31st, 1934, reached £3,700,000.

KLEINWORT, SONS & CO. Partners: Herman G. Kleinwort, Herman A. Andreae, Ernest G. Kleinwort, G. H. Kleinwort, The Drake Trust Co. Ltd.

The house of Kleinwort was founded in Cuba in 1792 by a German, Kleinwort, who landed in this island after a shipwreck. It was transferred to London in 1830. This house is popularly believed to possess fairly considerable capital resources, and has had a very high figure of acceptances. It is believed that during several of the post-war years, a figure of £10,000,000 for outstanding acceptances was well exceeded.

It has also been very active in the loans market, having borrowed in London funds which were subsequently re-lent to Central Europe, where a large portion of the firm's business is supposed to be transacted.

It is probable that owing to the moratoria in Central Europe its activities have been reduced.

M. SAMUEL & CO. LTD. Directors: Lord Bearsted, F. D. Samuel, S. C. P. Cooper, B. Abel Smith, C. B. Leatham, P. C. Anderson.

This house was founded in 1831, and counts among its directors Lord Bearsted whose fortune is largely invested in oil (Shell) and in land.

In 1920 the partnership was converted into a limited company, and the paid capital is now £2,000,000.

The house of Samuel was especially interested during the last century in the Far East, but it would appear to have now given up that branch of its activities.

It seems, to-day, to be developing its connections with an English clientele.

3rd Group. This group includes a majority of houses to whom the business of acceptance is of primary importance.

It is impossible to give details of all these acceptance houses without making unnecessary useless repetition.

In this group we are only emphasizing the particulars of some families and of some connections with the Bank of England. We give an extended description of the business transacted by Ruffer & Sons, because of the particularly interesting information which this house has kindly furnished to us.

ARBUTHNOT, LATHAM & CO. LTD. (1883). Directors: H. R. Arbuthnot, W. R. Arbuthnot, R. W. Muir Arbuthnot, R. Abel Smith. (Capital £590,000 subscribed; £440,000 paid up.)

This house has made a speciality of financing the importation of coffee from South America.

It had a long connection with the central institution through Alfred Latham who was on the Court of the Bank from 1838 to 1878 and was governor from 1861 to 1863, and through Ch. George Arbuthnot who sat on the Court from 1884 until 1928.

WILLIAM BRANDT'S SONS & CO. (1805). Partners: Augustus Philip Brandt, Henry Bernhard Brandt, Rudolph Ernst Brandt, William Edward Brandt, Henry Augustus Brandt, Walther Augustus Brandt.

This firm is, we believe, of Russian origin, and concerned itself with the financing of the exports of Russian and Finnish wood. It now works mainly with Scandinavia and Germany.

ANTONY GIBBS & SONS. Partners: Lord Aldenham, Lord Hunsdon, Hon. Gerald H. B. Gibbs, Hon. Walter Durant Gibbs, George E. Korn, Hon. Geoffrey C. Gibbs.

This house was established in 1808 by Antony Gibbs who came from Exeter where he was, like the Barings, engaged in the woollen industry and the export of cloth. The firm had close relations with Spain for many years and through these developed a large trade with South America.

Antony Gibbs have been associated for many years with nitrate industry in Chile. Through absorbing Bright Bros. they acquired business in Australia. They also have an agency in New York.

One of the late partners, Lord Cullen, a cousin of the Gibbs family, was governor of the Bank of England prior to Mr. Montagu Norman.

Lord Aldenham and Lord Hunsdon are brothers and grandsons of the founder of the firm.

GOSCHENS & CUNLIFFE. Partners: Sir Harry Goschen, Bart., Hon. Sir William Goschen, Ch. Henry Goschen, Kenneth Goschen, Lord Cunliffe, H. K. Goschen (special partner), Viscount Goschen.

This house was founded in 1814 under the name of Frühling & Goschen, and as is seen from the list of partners, it has maintained for well over a century an unbroken connection with one of the greatest City families.

The founder was William Henry Goschen, the son of a well-known Leipzig publisher who settled down in England as a young man. Four of his five sons were to become partners in the firm. The eldest was George Joachim, later Viscount Goschen, the famous Conservative Chancellor who in 1888 successfully carried through the Conversion of 'Consols' from 3 per cent to 2½ per cent.

The present partners represent the third and fourth generations.

In 1919 the original name was changed upon the absorption of the business of Cunliffe. Lord Cunliffe had then just relinquished his governorship of the Bank of England; a post which he had held throughout the difficult years from 1913 to 1918. He afterwards presided over the committee known as Cunliffe Committee which had to report on the conditions required for a return to the gold standard.

GRACE BROTHERS & CO. LTD. (1889). Directors: W. Holloway, J. P. Grace, W. Eyre, Earl of Donoughmore, E. Eyre, J. P. Eyre. (Capital £1 million.)

This house is attached to Grace & Co. (New York) who

own a steamship line to South America. It works specially with America and specializes in the financing of nitrates.

Guinness Mahon & Co. (1836) (London and Dublin). Partners: H. Rundell Guinness, H. S. Howard Guinness, Wlademar Ffennell, Douglas Guinness, A. Rundell Guinness, Eustace Guinness, Erin Trust Ltd.

The Guinness family has been engaged in banking business for six generations. Samuel Guinness, brother of Arthur Guinness, the founder of the well-known brewery in Dublin, was one of the earliest proprietors in the Bank of Ireland (1784). His grandson, Robert Rundell Guinness, founded the banking firm of Guinness, Mahon & Co. in 1836 and his great grandsons are now amongst the partners.

The international banking business of the firm is now concentrated in London, although a close contact with the Irish Free State is maintained through the firm's Dublin house.

Frederick Huth & Co. (1809). Partners: Frederick König, L. Huth Walters, L. Meinertzhagen, A. Wollorsen.

The founder was a Hanoverian citizen who had established himself in Spain and transferred his business in London in 1809. A partner joined him in 1816 and the firm became Fredk. Huth & Co.

The business was world wide and as early as 1823 firms were established in Valparaiso and Lima; one of them still exists in Chile. A branch of the London house was established in New York in 1917 as Huth & Co.

In 1923 the firm amalgamated with Messrs. König Bros.

The firm specializes in the finance of wool and furs, and also maintains subsidiary companies in connection with its coffee and general merchandise business.

S. Japhet & Co. Ltd. (1880). Directors: Saemy Japhet, Col. the Hon. Sidney Peel, P. Lindenberg, Max Fontheim, Gottfried Loewenstein, James Newcomb. (Capital £1,300,000.)

H. S. Lefevre & Co. (1795). Partners: H. C. Le Marchant, Duncan A. Stirling.

London Merchant Bank Ltd. (1873). Formerly the London & Hanseatic Bank. (Capital £1,350,000; £825,000 paid up.)

This house whose activities have been greatly reduced since the crisis, works especially with Germany and is supposed to have close connections with the Commerz und Privat Bank.

A. Ruffer & Sons Ltd. Directors: R. de Neufville, Ferdinand Ruffer, Christian Pierret, Mortimer Ruffer.

The house of Ruffer originated from the house of Joseph Aynard, which was founded in Lyons in 1750 and which became Aynard et Ruffer when Baron Joseph Ruffer opened an office in London in 1872.

In 1887, the London and Lyons houses separated officially, remaining, however, closely connected by a mutual shareholding. In Lyons, Aynard was absorbed by the Credit Commercial de France, whilst in London Ruffer & Sons was transformed in 1923 into a limited company with a paid-up capital of £1,000,000.

Ruffers have specialized in the financing of imports into Europe of goods from all over the world. They give credits to European importers, especially in France, Spain and (up to 1929) Central Europe. Until 1912 they owned the Spanish telephone services which were afterwards ceded to the various municipalities.

The principal imports which are financed are wool (destination Roubaix, Tourcoing, Mazamet, and London),

coffee (destination all over Europe via Le Havre and Hamburg), hides and leather (of which the majority passes through London). To these should be added, before the war, petrol and manganese of Russian origin.

Almost the whole of these operations are financed by documentary acceptances and at least 80 per cent of these credits are given to foreigners.

SELIGMAN BROTHERS LTD. (1864). Directors: Charles Seligman, David Seligman, Léon Rueff, Louis Fleischmann, Vincent Seligman, Douglas Seligman.

The origin of this house was the formation in New York of J. & W. Seligman by a family of German origin. This American business had offshoots in Seligman Bros. Ltd. (London), Banque Seligman (Paris), and Seligman (Frankfurt). The latter was, however, closed before 1914.

COMMENTS ON THE BALANCE SHEETS OF THE ACCEPTANCE HOUSES

The study which follows is directed to obtaining, as precisely as possible, some information as to the total figures of those houses who specialize in acceptances, particularly with regard to the years prior to the 1931 crisis.

These houses are twenty-four in number and could be classified in order of importance as *acceptor* in the following manner: Schröder, Kleinwort, Hambros, Lazard, Baring, Rothschild, Samuel, Japhet, Wm. Brandt, Morgan Grenfell, Erlanger, Fredk. Huth, Seligman, Higginson, London Merchant, Guinness Mahon, Ruffer, Brown Shipley, Grace, Arbuthnot Latham, Goschens & Cunliffe, H. Lefevre.

We must emphasize that the classification only takes into account the figures for acceptances prior to the crisis and that it is to-day out of date, for instance Erlangers Ltd. would now rank before Baring in the matter of acceptances.

Most of these houses are still constituted either as private partnerships with the unlimited personal liability of the partners, or in the form of private limited companies, both of which are exempt from the necessity for publishing balance sheets. Baring, Erlangers, Grace, Hambros, Japhet, London Merchant Bank and Ruffer are the only ones who publish their balance sheets; either because the law obliges them to do so as public limited companies or because they have freely chosen to give this publicity.

As we have already seen, the acceptance houses differ very considerably from one another, either by reason of their size, or of the nature of their activities. Some of them have balance sheets which total up to more than twenty-five million pounds, others do not reach two millions. The first are in reality deposit banks whilst the others are limited strictly to the granting of acceptance credits.

The seven houses which publish their balance sheets provide examples of both types. They give, therefore, a sufficiently composite picture to enable us to appreciate the whole. The following table gives the total of the seven balance sheets during the last few years.

TABLE I

Figures for 7 Houses publishing a balance sheet
(£000's omitted)

	Cap & reserve.	*Deposits*	*Acceptances*	*Cash and Banks*	*Bills*	*Investments*	*Advances*	*Premises*	*Acceptances*
1927	10,394	54,372	34,413	19,192	19,346	9,719	15,596	840	34,413
1928	11,259	54,605	41,464	19,743	18,549	9,772	16,950	950	41,464
1929	11,459	49,519	36,886	18,769	16,091	9,527	15,739	950	36,886
1930	12,559	48,483	33,360	20,778	13,709	11,547	14,129	950	33,360
1931	12,122	33,072	22,016	13,547	9,861	7,786	12,902	1011	22,016
1932	11,571	32,852	19,144	12,163	9,831	10,164	11,122	947	19,144
1933	11,573	37,387	19,958	12,516	9,678	12,449	13,383	1004	19,958
1934	11,575	38,348	21,286	13,602	8,431	13,632	13,289	1000	21,286

This table at once calls forth certain observations. We see that we cannot properly evolve a theoretic balance sheet for all the acceptance houses, as Hambros and Baring are amongst those who most nearly approach a type of deposit bank. On account of their size, therefore, they play a dominant part in the above figures. Furthermore, the figures contain quite a substantial amount of 'window dressing', that is to say they are more or less artificial in presentation. Even if we can give credence to the figures for capital resources, acceptances, securities, loans and premises, it is well known that the deposits are increased by diverse means on the eve of the balance sheet and that this increase is reflected by a corresponding rise in the most liquid assets, that is to say: cash, bank balances and bills.

Following on certain observations which we have made in the London money market, we believe that this window dressing has in many cases reached 15 per cent of the total deposits of these houses, before 1931 at least.

If we wish, therefore, to compile a theoretic balance sheet which will be of practical utility, and which is to combine the figures of all the acceptance houses, we must make allowances for these two factors.

We can correct the disproportional effects of the figures of the big houses by reducing all the published balance sheets to a common base of 100 for the total resources (capital, reserves and deposits) of each one, and by then taking the average of the percentages thus obtained. This results in the following table.

It is obvious that this table contains only one unknown quantity per annum, and that if for each year we can replace one only of these percentages by a real figure we shall be able to compile a total balance sheet for all the London acceptance houses.

There are, indeed, figures which are officially given,

TABLE II

Percentages of total resources

	Capital & Reserves	*Deposits*	*Acceptances*	*Cash B'nks & money at call*	*Bills*	*Investments*	*Advances*	*Premises*	*Acceptances*
1927	29·7	70·3	76·8	32·2	24·2	16·7	24.3	2·6	76·8
1928	31·1	68·9	93·8	31·9	23·8	17·9	24.2	2·2	93·8
1929	32·9	67·1	91·9	33·7	22·9	18 0	23.0	2·4	91·9
1930	36·5	63·5	86·1	34·4	19·1	19·1	25.0	2·5	86·1
1931	49·7	50·3	74·4	30·5	14·0	17·7	34.8	3·0	74·4
1932	48·5	51·5	65·0	32·1	15·3	18 1	30.8	3·7	65·0
1933	47·0	53·0	61·9	34·0	12·1	19·0	31.3	3·5	61·9
1934	46·6	53·4	61·9	35·1	12·4	19·0	30.0	3·4	61·9

which will permit us to solve this problem. The report of the Macmillan Committee gives in its appendices, first the total amount of acceptance credits given by the acceptance houses to foreigners, and secondly the amount of foreign deposits held by these houses on June 30th and December 31st of each of the last few years.

From 1927 to 1930 these figures are as follows:

	1927	*1928*	*1929*	*1930*
Foreign acceptances	108	149	155	142
Foreign deposits	89·3	104·3	79·2	82·1

We have chosen the figure for acceptance for insertion in our second table as the unknown quantity because, as we have seen, the percentages which we have calculated for the deposits contain an element of window dressing.

We must, however, bear in mind that the figures given in the Macmillan Report are only concerned with the acceptances granted to foreigners; we must, therefore, bring into account also the acceptances granted to British exporters and importers, as well as for interior trade.

From all the information which we have been able to gather, and taking into consideration the fact that some of

the smaller houses make rather a speciality of these English acceptances, we believe that the proportion of 'home acceptances' did not exceed 10 to 15 per cent of the total acceptances current prior to 1931. We can, therefore, conclude that the Macmillan Report figures represent approximately 87½ per cent of the total figures for acceptances. The following results emerge:

	1927	*1928*	*1929*	*1930*	*1931*	*1932*	*1933*	*1934*
Foreign acceptances	108	149	136	125				
English acceptances	16	21	19	18				
Total acceptances	124	170	155	143	92	80	79	80

If we compare these figures with those of the seven houses whose published balance sheets are set out in Table I, which, for the same years are:

34·4 41·5 36·9 33·4 22 19·1

we find that the proportion of the one to the other from 1927 to 1931 was:

10-36 10-40·9 10-42 10-42·8

There is a consistency in these figures which enables us to say that, in round figures, the total quantity of acceptances in the market is approximately 4·2 times those of the above-mentioned seven houses. This figure enables us to fill in the total figures for 1931 and 1932 which have not been published.

The figures which we have obtained for these acceptances give us the key to the theoretic balance sheet which we compiled in percentages in Table II. If we regard the total resources for each year (capital, reserves, deposits) as being the unknown quantity we find:

Dec. 1927 $\frac{76 \cdot 8 \times x}{100} =$ £124 millions therefore $x =$ £161,400,000

Dec. 1928 $\frac{93 \cdot 8 \times x}{100} =$ £170 millions therefore $x =$ £181,200,000

Dec. 1929 $\frac{91 \cdot 9 \times x}{100} =$ £155 millions therefore $x =$ £168,600,000

Dec. 1930 $\frac{86 \cdot 1 \times x}{100} =$ £143 millions therefore $x =$ £166,000,000

Dec. 1931 $\frac{74 \cdot 4 \times x}{100} =$ £92 millions therefore $x =$ £123,600,000

Dec. 1932 $\frac{65 \times x}{100} =$ £80 millions therefore $x =$ £123,100,000

For 1933 and 1934 too long a time has elapsed since the information given by the Macmillan Report for us to rely on the ratio which we had previously established between the figures of the seven houses publishing their balance sheets and those of the whole group of the acceptance houses. We still have, however, our percentage indications on the average distribution of assets and liabilities (Table II). We know, furthermore, that the reserves have begun to be slightly replenished after the serious writing down necessary following 1931. It seems, therefore, fairly reasonable to assume that the capital and reserves of the acceptance houses have been restored to £60 millions and this will provide a new key to the actual figures of the group.

We still then have:

Dec. 1933 $= \frac{47 \times x}{100} =$ £60 millions therefore $x =$ £127,700,000

Dec. 1934 $= \frac{46 \cdot 6 \times x}{100} =$ £60 millions therefore $x =$ £128,800,000

Having thus determined the value of our base figures of 100 for each year, we can now calculate all the percentages and we obtain the following table which shows the figures for the combined balance sheet of all the London acceptance houses (in thousands of pounds) at the end of each year from 1927 to 1934:

	Capital and Reserves	*Deposits*	*Acceptances*	*Cash Banks and Call Money*	*Bills*	*Investments*	*Advances*	*Premises*
1927	48,900	113,400	122,000	52,000	39,100	27,000	39,200	4,100
1928	56,400	124,800	170,000	57,800	43,200	32,400	43,800	4,000
1929	55,500	113,100	155,000	56,800	38,600	30,400	38,800	4,000
1930	60,600	105,400	143,000	57,100	31,700	31,500	41,500	4,200
1931	61,400	62,200	92,000	37,700	17,300	21,900	43,000	3,700
1932	59,700	63,400	80,000	39,500	18,800	22,300	37,900	4,500
1933	60,000	67,760	79,000	43,000	15,400	24,300	40,000	4,500
1934	60,000	68,800	80,000	45,200	16,000	24,500	38,600	4,500

These combined figures are obviously only approximate but they are sufficiently near the truth to give us a good idea of the size of the individual items.

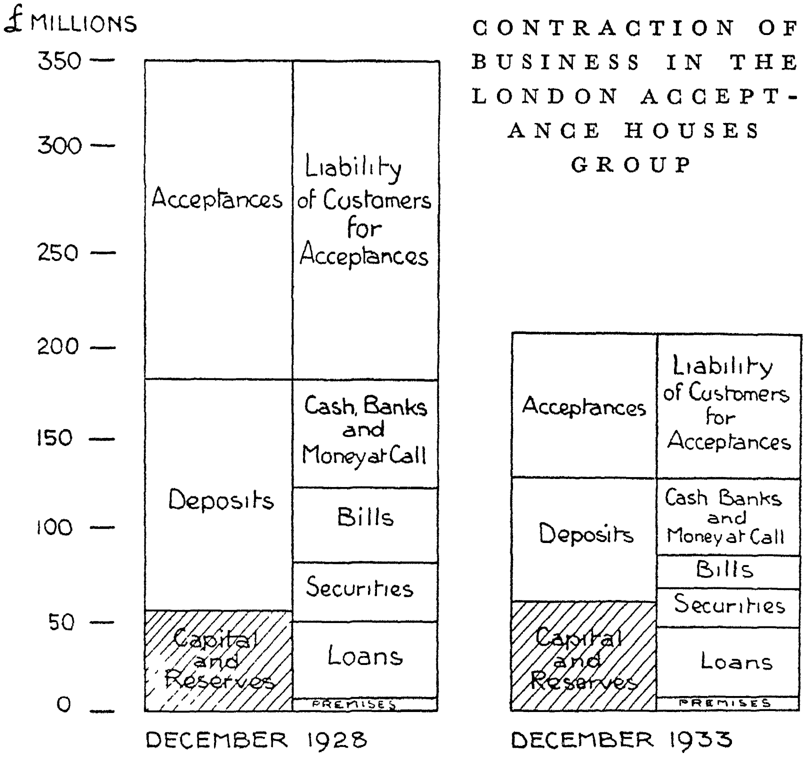
If we compare the figures which we have thus obtained for the total deposits with those published by the Macmillan Report for foreign deposits we find a difference which represents the British deposits and, to a certain degree, the window dressing.

	1927	1928	1929	1930	1931	1932	1933	1934
Total deposits	113,400	124,800	113,100	105,400	62,200	63,400	67,700	68,800
Foreign Deposits	89,300	104,300	79,200	81,200				
English deposits & Window Dressing	24,200	20,500	33,900	24,200				

It is possible that in certain of the published balance sheets, the window dressing reached and sometimes even exceeded 15 per cent of the deposits before the 1931 crisis.

We can, therefore, conclude that the amount of deposits of British origin which are placed with the merchant bankers is very small indeed.

In order to enable us to make a comparison between the policy of the acceptance houses and the other British banks, we have drawn up diagrams with the aid of the percentages obtained in Table II. These give us a picture of the position of the acceptance houses at the end



CONTRACTION OF BUSINESS IN THE LONDON ACCEPTANCE HOUSES GROUP

of 1928 when international trade was at its peak and show the considerable contraction which had to be faced as a result of the crisis.

We shall relate in a subsequent chapter how the solidarity of the London banks enabled the acceptance houses to survive this crisis which found them, as the first graph shows, in a rather dangerous position.

CHAPTER V

OTHER BANKS

It is not possible to make any very definite distinction between the purely English banks and those whose activities are concentrated outside the United Kingdom, that is to say between the national and international banks.

We can, however, say that the Bank of England together with the deposit banks (or commercial banks) and the discount houses form a complete national system which could exist even if Great Britain were to be a closed economic unit.

We have already seen that the Big Five have certain activities in the international sphere, and that several of them have branches or affiliated companies in the Empire or in foreign countries. In general, however, the foreign activities of the English banks are entirely secondary. The discount houses, however high may be the proportion of bills of foreign origin which pass through their hands, could perfectly well function on a purely national basis.

We have seen on the other hand, that the activities of the acceptance houses are fundamentally external and that they live, essentially, by the financing of international trade.

The same remark applies to all the banks which remain to be reviewed. A link between them is thus created which justify their grouping in the present chapter.

If, however, these banks, like the acceptance houses, depend for their livelihood on international trade, they do it, nevertheless, on a somewhat different basis. The acceptance houses usually have a multiplicity of foreign relationships, and their activities do not as a rule depend entirely

upon the trade conditions of any one individual overseas country. One could perhaps say that whilst the acceptance houses are a sort of outward radiation of the power of the British banking system, the banks which we are now going to study are, on the contrary, those which converge towards the City and owe their existence to movements from overseas towards England. They bring to London such operations as bill discounts, issues, borrowing, etc., from every country in the globe which is a client or a supplier of Great Britain. These numerous banks which, together with the acceptance houses, connect London directly with every commercial centre in the world, are of very varied types. We can, for convenience sake, group them into three main classes:

(*a*) *Colonial and Dominion banks.* This group consists, first of those imperial banks whose head offices are in London and whose activities are centred in one part or another of the Empire, and secondly of those dominion and colonial banks who have opened offices in London.

(*b*) *Anglo-Foreign banks.* This group includes the banks which have been formed in London under British law, to facilitate international business, generally with a given foreign country.

(*c*) *Foreign banks.* The last group includes all banks constituted under the laws of countries outside the Empire which have offices in London as well as those banks which have been constituted under English laws but are controlled by foreign shareholders.

FIRST GROUP—COLONIAL AND DOMINION BANKS

There are many important banks who confine their activities to operations between a colony or a dominion

and the metropolis. The City of London, with its wonderful financial organization is, indeed, the centre of a network of Empire banks which encircle the globe.

The banks have either their head offices or a main branch in London, depending on whether they are registered under English laws or under those of a dominion. If we ignore this purely legal distinction we can divide them into two fairly distinct categories.

The first have the majority of their branches (and sometimes their head office also) situated in a Dominion wherein the bulk of their operations take place. Examples of these are the big Australian, New Zealand, South African and Canadian banks.

The remainder are those banks whose branches are scattered over the British Empire and in foreign countries. Such are the Indian and Far Eastern banks usually known under the somewhat vague title of *Exchange Banks*.

We give herewith a list of these different banks with indications as to the dates of their founding, their head offices, their capital resources (capital and reserves) and their deposits (in thousands of pounds).

A. AUSTRALIA

			Capital	*Reserves*	*Deposits 1934*
1865	Bank of Adelaide	Adelaide	1,250	1,000	6,197
1835	*Bank of Australasia*	*London*	4,500	2,475	39,602
1817	Bank of New South Wales	Sydney	8,780	6,150	91,841
1866	Commercial Bank of Australia	Melbourne	4,117	2,000	24,549
1834	Commercial Banking Co. of Sydney	Sydney	4,739	4,300	48,629
1911	Commonwealth Bank of Australia	Sydney	4,000	1,925	74,916
1852	*English, Scottish and Australian Bank*	*London*	3,000	1,635	32,035

			Capital	Reserves	Deposits 1934
1858	National Bank of Australasia	Melbourne	5,000	3,000	36,213
1872	Queensland National Bank	Brisbane	1,750	860	7,942
1837	*Union Bank of Australia*	*London*	4,000	3,461	36,460

B. NEW ZEALAND

			Capital	Reserves	Deposits 1934
1861	Bank of New Zealand	Wellington	6,858	3,575	34,328
1872	*National Bank of New Zealand*	*London*	2,000	2,000	15,596

C. AFRICA

1862	*Standard Bank of South Africa*	*London*	2,500	3,164	58,710
836	Barclays Bank (Dominion, Colonial and Overseas), succes. of the National Bank of South Africa and of the *Anglo-Egyptian Bank*[1]	*London*	3,975	1,750	82,866
1894	*Bank of British West Africa*[2]	*London*	1,200	400	6,134
1898	National Bank of Egypt[3]	Cairo	3,000	3,000	24,162

[1] Issuing bank (issue £51,000,000 in South Africa).
[2] See p. 64· 'Activities of the Big Five outside Great Britain'.
[3] Issuing Bank (issue £E.21,100,000).

All the countries in the above list, Australia, New Zealand, South Africa, East Africa, Egypt, have currencies which are linked to the pound sterling. In normal times these different currencies, Australian pounds, Egyptian pounds, etc., stand approximately at parity with the pound sterling. This of course facilitates very greatly their operations in London.

Canada shows more financial independence, her dollar appearing more often to be subject to the pull of the American dollar than to that of the pound sterling.

With the exception of Barclays Bank (Canada), founded in 1929, there are no English banks established in Canada. All Canadian affairs, including those between Canada and the mother country, are carried out by the Canadian banks who, like the foreign banks, have branches or representatives in London. These banks are very powerful organizations, as can be seen from the following figures ($000's omitted):

D. CANADA

			Capital	Reserves	Deposits 1934
1817	Bank of Montreal	Montreal	36,000	38,000	639,229
1832	Bank of Nova Scotia	Halifax	12,000	24,000	234,127
1867	Canadian Bank of Commerce	Toronto	30,000	30,000	485,289
1871	Dominion Bank	Toronto	7,000	7,000	108,974
1875	Imperial Bank of Canada	Toronto	7,000	8,000	111,689
1869	Royal Bank of Canada	Montreal	35,000	20,000	646,480

Next come the Exchange Banks. These are mainly Indian banks. The Indian currency is pegged to the pound sterling, the rupee having been stabilized at 1s. 6d. The Anglo-Indian banks make up their balance sheets in sterling (with the exception of the Imperial Bank of India whose figures we have converted).

The Hongkong & Shanghai Banking Corporation works mainly with the Far East, and its balance sheet is made up in silver dollars. This currency is subject to wide fluctuations and we have converted the figures for 1934, at a rate of 1s. 8d. per Hongkong dollar.

The *Imperial Bank of India*, founded in 1920 by the amalgamation of three Indian banks (Bank of Bengal, Bank of Bombay and Bank of Madras), owns 165 branches which are all either in India or in Ceylon. The remaining banks, on the contrary, extend their operations somewhat outside the Indian littoral, the *National Bank of India*

extending to Africa with branches in Kenya, Uganda and Tanganyika, the *Eastern Bank* to Mesopotamia, and the *Mercantile Bank* to the Far East, particularly in Malay, but also in China, Dutch East Indies, Siam and Mauritius.

In spite of its title, the *Chartered Bank of India, Australia and China*, and its affiliated company the *P. & O. Banking Corporation*, do not operate in Australia. They have, however, branches in the Malay State, Siam, Dutch East Indies, Indo-China, Philippines, China, and Japan, as well as in Hamburg and New York.

The *Hongkong and Shanghai Banking Corporation* is represented all over the Far East and in India, and Manchuria, and has offices in London, New York, San Francisco, Hamburg, and Lyons.

(£ 000's omitted)

Founded	*Exchange Banks* 1934		*Paid-up Capital*	*Reserves*	*Deposits*
1853	*Chartered Bank of India, Australia & China* holds 80 per cent of the capital of	London	3,000	3,000	46,500
1920	*P. & O. Banking Corporation* which itself controls	London	2,594	180	6,500
1865	Allahabad Bank Ltd.	Calcutta	—	—	—
1909	*Eastern Bank Ltd.*	London	1,000	500	6,500
1920	Imperial Bank of India (figures converted from rupees into sterling at the standard rate)	Calcutta	4,220	4,010	60,700
1858	*Mercantile Bank of India*	London	1,050	1,050	13,000
1866	*National Bank of India*	London	2,000	2,200	28,700
1867	Hongkong & Shanghai Banking Corporation (figures converted on the basis of HK. $ = 1/8)	Hongkong	1,708	7,354	58,400

We have made a point of giving a complete list of the colonial and dominion banks in order to draw the reader's attention to their number and importance. A rapid examination of their resources and of their deposits shows that some of them are of a size comparable with Martins Bank in London or with the Comptoir d'Escompte in Paris.

If we bear in mind the importance of London both as a port and as a money market, we can understand the very active part played by the London offices of all these banks.

Their principal activities are as follows:

(*a*) The colonial and dominion banks finance the exports of the Empire to the metropolis by arranging for the acceptance and for the collection of drafts drawn on the English importers. They sell to them the exchange necessary to enable them to make their payments to Sydney or Montreal, and obtain in London the necessary funds which they place at the disposal of their overseas branches in order to enable them to effect settlement for English exports. On the instruction of these branches they open documentary credits in London for the acceptance of drafts relative to goods sent from England.

(*b*) They act as transfer agents and as a sort of clearing house for sterling settlements which may occur between their various branches.

(*c*) They issue numerous loans for the dominions and colonies, and sometimes for remote municipalities or industrial enterprises, and look after the service of the coupons or dividends on the securities so created.

(*d*) They keep accounts for such of the dominion and colonial commercial and industrial enterprises as may have offices in London.

(*e*) They look after the short term funds which they

may acquire, by the purchase of British Treasury bills and bank bills, or by lending day-to-day money to the money market. (It is of interest to note that these banks, unlike the English banks, are prepared to accept a certain proportion of Government bonds and Treasury bills of their own particular governments as security for the funds which they lend to the brokers.)

(*f*) Finally they see to the payment of such letters of credit as may be issued by their overseas branches.

The exchange banks have a further activity and incidentally a source of considerable profit, in exchange transactions, owing to the fact that silver is still a monetary standard in the Far East. This activity has been considerably reduced since 1925, during which year the Indian currency was stabilized by the adoption of a gold exchange standard. Since that date, Indo-China has also abandoned a silver standard in favour of a gold standard, thus limiting still further exchange fluctuations. The exchange banks accumulate funds in London by cashing the bills which are sent to them by their branches who in their turn have discounted them for the eastern exporters. They see to the subsequent retransferring of these funds to India by buying the rupee bills of the India Council which are issued in India but which are purchasable in London in sterling.

It is noteworthy that the exchange banks earn considerable profits in China through Chinese government issues and by supervising the services of such loans.

SECOND GROUP—ANGLO-FOREIGN BANKS

This group only includes banks of English nationality. They can, perhaps, be sub-divided into two further groups, the Anglo-South American banks and the remainder.

A. *Anglo-South American Banks*

England has invested considerable capital sums in the South American republics and it is only during the last few years that the United States have begun to compete in this *financial colonization* of the South American States.

England has always seen to it that the funds which she lent were used to facilitate the sale of her manufactured products. On the other hand she was usually agreeable to filling in a large degree her requirements of raw materials or foodstuffs from the South American republics. It follows that the Anglo-South American banks carry out very similar operations to those which we have already enumerated for the banks of the British Empire. Most of the purely financial operations carried out in London on behalf of these countries have, however, remained in the hands of merchant bankers such as Baring, Lazard, Rothschild and Schroder.

In connection with the overseas activities of the Big Five we have already had occasion to mention the Bank of London & South America. This bank, which was founded in 1863 under the name of the 'London & River Plate Bank Ltd.', passed in 1919 under the control of Lloyds Bank, and altered its name in 1923 when it took over the London & Brazilian Bank.

There is a further bank operating in this sphere. The *Anglo-South American Bank Ltd.*, which was founded in 1888, has also absorbed several rival banks of which the principal was the *British Bank of South America.* This latter still exists in name but its total capital has been owned by the Anglo-South American bank since 1920.

The following figures give some indication of the size of these institutions. These are the figures for 1934, and are expressed in thousand of pounds.

	Capital	Reserves	Deposits
Bank of London and South America Ltd.	3,540	1,500	31,363
Anglo-South American Bank Ltd.	6,632	70	24,585
British Bank of South America Ltd.	1,000	1,000	3,950

These banks have branches in every South American republic. They have naturally suffered very seriously from the economic crisis and from the political revolutions which have disturbed these countries. The Anglo-South American Bank in particular, which had a large volume of its acceptances outstanding and which had given guarantees for considerable sums, had to be reorganized in 1932 with the aid of the big banks (its £10 shares, £5 paid up, were, prior to the reorganization, quoted at a loss). Their position has substantially improved since and they are benefiting by the general improvement of economic conditions in their part of the world.

B. *Other Anglo-Foreign Banks*

We have now to deal with several banks of very different types, practically all of which have, however, been founded since the war.

The most interesting, and also the largest, is the *British Overseas Bank Ltd.* (capital £2,000,000) which was founded in 1919 under the auspices of the Union Bank of Scotland and of Williams Deacon's Bank. The Prudential Assurance Company also possesses an important interest in this bank, which has been developed somewhat along the lines of an acceptance house. It possesses close connections both with Poland, where it had an affiliated Company,[1] and with the Baltic States. It plays a very active part in the foreign exchange market. After September 21st, 1931, it was

[1] This Company, the Anglo-Polish Bank, was merged in 1935 with the Bank Handlowy.

chosen, together with the Anglo-International Bank, to operate on the foreign exchange market for account of the Bank of England. The exchange control has subsequently been extended on wider lines, and through the intermediary of more numerous and more powerful houses.

The Anglo-International Bank Ltd. was founded in 1926 with a capital of £1,960,000, in order to take over the affairs of the Anglo-Austrian Bank and of the British Trade Corporation. This latter institution was semi-official and was somewhat similar to the Banque Nationale Française pour le Commerce Extérieur. After its organization the Anglo-International Bank relinquished its Hungarian and Roumanian branches. The Bank of England, which had heavy claims against the Anglo-Austrian Bank, is very closely connected with the Anglo-International and possibly exercises some control over its activities. This explains the important part which this small bank played in the foreign exchange market during 1931 and 1932.

The Anglo-French Banking Corporation was founded in 1928 with a capital of £1,250,000. This new bank had on its board of directors a number of Frenchmen representative of the Union Parisienne, and of the houses of Mirabaud and Hottinguer, and of Englishmen representing the Midland Bank and Martins Bank. From the speeches of its founders we gather that it was intended to act as a connecting link between the London and Paris markets, especially with regard to the issuing of loans on one market or the other. In actual fact, judging by the details of its balance sheet, its activities have instead been directed towards Central Europe and South America, and have been somewhat similar to those of the merchant bankers, more especially with regard to the granting of acceptance credits to a very large sum. The very great activity which this firm displayed when it had commenced operations

has been very considerably reduced by the crisis of 1931. Most of its capital, namely £750,000, having been lost, it gave up acceptance business in 1934.

The Anglo-Portuguese Colonial and Overseas Bank was founded in December 1929 with a capital of £1,000,000 to take over the branch in London of the Banco Ultramarino, as from January 1st, 1930.

The Imperial Bank of Iran was founded in 1899. It obtained the exclusive right of note issue for sixty years in return for a payment of 6 per cent of its profits to the Persian government. This privilege was given up in 1931 in return for which the Persian government renounced any further claim of the profits on the bank and paid an indemnity of £200,000. Its capital is £650,000.

The London & Eastern Trade Bank was founded in 1920 with a capital of £600,000, and operated mainly with the Near East. Up till 1931 its figure for acceptance was fairly high. Badly hit by the crisis, it discloses at the end of 1934 losses amounting to £200,000.

These are the main Anglo-Foreign banks. Of lesser importance are the *Ionian Bank* which is the oldest of these banks, having been founded in 1839, and the two Jewish banks, the *Jewish Colonial Trust* (founded in 1899) and the *Anglo-Palestine Bank* (founded in 1902). The Anglo-Palestine Bank is developing its activities and increased its capital in 1935; it is understood that Lloyds Bank has taken a share of the new capital.

THIRD GROUP—FOREIGN BANKS

Every facility is offered for foreign banks to establish branches and conduct operations in London. No restrictions are placed upon their activities nor are they subject to any special taxation.

A very great number of foreign banks have therefore seen fit to establish themselves in the City. Sometimes they are content with a representative who keeps in close contact with their London correspondence and who acts as a sort of observer in the various markets. More often they establish an office or branch (usually known as a *Foreign agency*) dependent upon the foreign head office and constituted under foreign laws. Lastly, it sometimes happens that foreign banks form in London affiliated companies under British law. This system has several advantages over that of a branch, notably that the signature of such a company ranks as an English signature, and that in consequence its acceptances can be negotiated at the most favourable rates. On the contrary, the signatures of the foreign agencies, even such as the Crédit Lyonnais or the National City Bank, are always subject to a discrimination to the extent of 1-16th per cent on account of the fact that they are not rediscountable at the Bank of England.

Up till the war, the Germans were a very important factor in the London market. We must not forget in the first place the very important part which certain German families played in the building up of the 'City'. Such names as Rothschild, Frühling, Schröder, and Goschen were destined to become the pillars of English finance. Three of the big German banks had very active branches in London in 1914, namely the Dresdner Bank, the Disconto Gesellschaft, and the Deutsche Bank. They were exceptionally active in the acceptance and foreign exchange markets. These houses were put into liquidation on the outbreak of war. The German banks have showed no sign of desiring to re-establish themselves in London since the war, and it seems as though some agreement has been come to on this subject with those of the acceptance houses who have been carrying out their transactions.

The house of Schröder appears to be the main correspondent in London for the German banks.[1]

The great French banks have been represented in London for many years. The first, from the chronological point of view, was the Comptoir National d'Escompte which has had a branch in London since 1865. Soon after the war of 1870, its example was followed by the Société Générale pour favoriser le Commerce et l'Industrie (which is known in London as the Société Générale de Paris) in 1872, and the Crédit Lyonnais in 1873. Next, in 1895, the Société Générale de Crédit Industriel et Commercial opened an agency, and finally and more recently the Crédit Foncier d'Algérie et de Tunisie opened a branch in 1920.

All of these banks have adopted the legal form of an ordinary branch for their London organization.

The Crédit Commercial de France has a representative in London, and for several years after the war the Banque Franco-Chinoise (previously Banque Industrielle de Chine) and the Banque Nationale de Crédit have also had representatives or agencies in London.

L'Union des Mines (the bank for the Comité Central des Houillères de France) has not opened a branch in London but it founded in 1926 an English subsidiary, the *British & Continental Banking Co. Ltd.* with a capital of £100,000. Hambros Bank has since taken a participation in this enterprise. This company has been used to find employment in London for deposits mainly of French origin, and its deposits reached £7,000,000 in 1930, but were reduced to about £600,000 as a result of England's departure from the gold standard.

Many other big banks of various nationalities are

[1] There were rumours, however, in summer 1935, as to the impending opening in London of a new German banking institution.

represented in London. Ignoring these banks who have only a representative, we give below a list of those who have a branch or a subsidiary in the City, together with an indication of the dates when they were opened.

SIX FRENCH BANKS

1865 Comptoir National d'Escompte
1872 Société Générale (de Paris)
1873 Crédit Lyonnais
1895 Crédit Industriel et Commercial
1920 Crédit Foncier d'Algérie et de Tunisie
1926 British & Continental Banking Co. Ltd. (subsidiary of l'Union des Mines, Paris)

FOUR AMERICAN BANKS

1895 Guaranty Trust Company of New York
1930 Chase National Bank of New York (absorbed in 1930 the Equitable Trust Co. which has had a branch in London since 1900 under the successive names of North American Trust Company of New York, of Trust Company of America, and finally of Equitable Trust)
1921 National City Bank of New York (taking over the International Banking Corporation which had been in London since 1901)
1923 Bankers Trust

FIVE JAPANESE BANKS

1884 Yokohama Specie Bank
1913 Bank of Taiwan
1918 Sumitomo Bank
1920 Mitsubishi Bank
1924 Mitsui Bank

TWO BELGIAN BANKS

1912 Banque Belge pour l'Etranger (successors to the Banque Sino-Belge which had absorbed the Anglo-Foreign Banking Corporation founded in 1884)
1915 Banque Italo-Belge

THREE ITALIAN BANKS

1911 Banca Commerciale Italiana
1911 Credito Italiana
Banco di Roma

SUNDRY OTHER BANKS

Swiss Bank Corporation (Société de Banque Suisse)
Banque Ottomane
1907 Banco-Espanol del Rio de la Plata (Argentine)
1918 Banco de Bilbao (Spain)
1916 Anglo-Czechoslovak and Prague Credit Bank
Bank of Athens
Bank of Roumania
Banco de Chile
Moscow Narodny Bank (successor of the British Bank for Foreign Trade which bank itself was the continuation of the Anglo-Russian Bank founded in 1911)

CHAPTER VI

CLEARING

WE have seen how large are the funds which are administered by the British banks, and we have in addition examined the high figure of resources at the disposal of the foreign banks which are represented in London. We shall examine in the second part of this book the working of the money and discount markets into which the activities of all these banks dovetail. We know that banking transactions in England reach an extremely high figure, and we will now look at the manner in which the resultant movements of funds are carried out. Settlements between banks which result from these numerous and often very large figures are, in a majority of cases, carried out by means of the *London Clearing House.* The origin of this house goes back to about 1770, since when it has been continually developing and perfecting its organization.

There are, of course, other methods of settlement and there are also other clearing houses in England.

We shall examine each of these successively.

I. THE ACTUAL CLEARING

Ten banks, as we have seen, are members of the London Clearing House, to which fact they owe their usual title of 'clearing bank'. They are: Barclays, Coutts, Glyn Mills, Lloyds, Martins, Midland, National, National Provincial, Westminster and Williams Deacon's. We should perhaps add the name of the Bank of England for which, however, the clearing operates only to a certain extent.[1]

[1] See *Bankers' Clearing House*, Matthews, p. 35.

These banks nominate a committee appointed from among their directors. The governor and deputy governor of the Bank of England are *ex officio* members of this committee. The committee each year elect a chairman (who is not eligible for immediate re-election) and a deputy chairman. An honorary secretary, with no definite time limit, was also appointed and, up to the end of 1934, this office was held by Mr. R. Holland-Martin who had held the post for over twenty-five years. In the commencement of 1935, Mr. Holland-Martin resigned the post of honorary secretary and the position has been left open for the moment, but a paid secretary (Mr. Sykes, the secretary of the Institute of Bankers) has been appointed instead.

The management of the clearing house consists of a chief inspector, a deputy inspector and an assistant inspector. The personnel is furnished by the banks according to their size. The number of bank employees working in the clearing house reaches as many as 500 in certain periods of the year.

The Clearing Bankers' Committee constitutes an organization which is ready at all times to study, and if necessary to take any requisite measures of co-operation which circumstances might render necessary. In this connection they were able to be of service during the war and more recently still, during the 1931 crisis.

The London Clearing House has always been very exclusive. This has in the past caused some inconvenience, but to-day every big London deposit bank is a member and the other banking institutions: acceptance houses, discount houses, foreign banks, etc., each have an account either with the Bank of England or with one of the clearing banks, and can thus benefit almost equally in the advantages of the clearing.

In London, the clearing is carried out in three sections

which correspond to three different geographic divisions. First there is the *Town Clearing*, the only one which dates back to the origin of the clearing house. This clearing approximately covers the area of the City of London. The *Country Clearing*, the second to appear, dates from 1858. At this date the country bankers considered the advisability of organizing their own clearing house in London, but the London bankers, being anxious to avoid this possibility of competition, arranged for a country clearing in the clearing house. This clearing was to include all the provincial banks and the sole condition made was that they should each nominate an agent from amongst the London clearing banks and that the name of such agents should appear on the bottom of their cheques.

Finally in 1907 the *Metropolitan Clearing* was organized in order to give a service equivalent to that of the town clearing to those banks and branches which were established in London outside the City limits. These banks had, up to that date, organized their own settlements by means of a system of *walks clearing* which we shall examine later.

Town Clearing

The Town Clearing includes the Bank of England, the head offices of the ten clearing banks and those of their branches which are situated within a radius of the clearing house such that their messengers are able to reach the clearing house on foot within five minutes. In all, about a hundred banks are included in this clearing.

It is extremely useful for a bank to be situated inside this area. Customers such as stockbrokers and assurance companies who have heavy movements of funds each day have to keep their main banking accounts in a branch within the town clearing. This does, in effect, give them the right, up to the last minute, to pay cheques into their

account for credit the same day. There would, otherwise, be a risk of losing fairly high amounts of interest or, on occasions, of paying debit interest.

Settlements in the town clearing are carried out with an almost extraordinary promptitude. There are two clearings, the first at eleven, which prepares the ground for the second and main clearing at 3.45 p.m.; on Saturdays the two clearings are at 9 a.m. and 12.30 p.m. respectively.

The procedure is as follows:

Each head office enters in a waste book the list of all the cheques or drafts in its possession drawn on or payable with the other clearing banks. From this the total credit due from each bank is ascertained. The cheques and drafts are then taken to the clearing house and handed in at the desks of the banks on whom they are drawn. The morning clearing consists of cheques received by post, of bills which have been held in portfolio and which fall due that day, and of sundry others which have missed the previous night's clearing. The afternoon clearing consists of cheques which have been paid in over the counters, of bank transfers, and of bills remitted for collection, all of which clients and messengers are bringing up to the very last minute.

After 3.30 it is not possible to obtain payment of a cheque until the next day. It is, however, possible to obtain from the paying banker an endorsement 'payable to-morrow'. This 'marking' has the effect of an acceptance.

At the clearing house, the employees of each bank enter in an 'In Book' a list of all cheques drawn on their particular bank whilst at each clearing bank an 'Out Book' has been prepared of all cheques sent out for collection. When the time for the settlement arrives the 'In Books' are taken to the banks to be matched up against the 'Out Books'.

Both books having been agreed, the balances are carried on to a clearing house sheet, of which there is one for each bank. This sheet shows the position of the bank in question at the end of that particular day in respect of each of the other clearing banks. There will be a final balance on the sheet showing if the bank in question has a balance to pay or to receive.

The cheques and drafts to be paid are being continually sent in batches from the clearing house to the head offices of the banks as they arrive. They are then sorted into branches or departments and those which are refused payment have to be returned within an hour of presentation. The speed with which these operations are carried out is indeed remarkable, especially when we consider the tremendous number of operations involved. The cheques returned are debited to the bank who presented them.

The last unpaids having been posted on the clearing house sheet, each bank who is on balance a debtor makes out a transfer on the Bank of England in favour of the clearing house, and each bank with a credit balance requests the Bank of England to credit their account by the debit of the clearing house.

Metropolitan Clearing

This clearing covers an area surrounding the City with a diameter of about five miles. Practically speaking, the metropolitan branches are those which can be reached in half an hour from the City. Twice a day, before four o'clock, these branches have to send their messengers to their head offices.

From 9 to 10.30 a.m. (Saturdays 8.45 to 9.50) the clearing house receives the cheques and drafts of the metropolitan clearing. Messengers are continually going

backwards and forwards between the clearing house and the head offices of the various banks, where the cheques are sorted into branches as they arrive. The messengers from the branches drawn on come also to pick up their respective parcels. The list of such cheques is made up either by the head office or by the branch. These lists can be checked up against those of the clearing house.

The branches have next to examine the cheques and drafts, to cancel those which are in order and to return the others, the 'unpaids', before the closing of the afternoon clearing.

The branches naturally send in to the clearing at the same time any cheques or drafts which they may have in their possession drawn on banks in the town clearing.

Country Clearing

This last clearing embraces the whole of Great Britain, and this in spite of the fact that clearing houses do exist in cities other than London. *Contrary to the other two clearings the country clearing is for cheques only*, bills on the provinces being collected in a different manner, and payment being only made two days after presentation.

In this settlement the London bank acts only as an agent for its correspondent or for its provincial branches, and not on its own responsibility. The procedure followed does not differ materially from that for the town and metropolitan clearings, but, on account of the two days' delay, all adjustments have to be made after the settlement.

This country clearing considerably reduces the work of the branches. Prior to its inauguration each bank had to send as many separate letters as they had received cheques on different banks. To-day one single mail to London is sufficient. As the ten London clearing banks represent a

total of 7500 branches in England and Wales, the importance of the country clearing can be easily imagined.

The statistics which follow give some idea of the importance of the London Clearing House and of its different sections:

£ 000's omitted.

Year	*Town*	*Metropolitan*	*Country*	*Total*
1908	10,408,254	647,842	1,064,266	12,120,362
1913	14,191,275	855,648	1,389,481	16,436,404
1919	23,214,685	1,813,929	3,386,768	28,415,382
1925	35,801,264	1,678,347	2,957,508	40,437,119
1929[1]	39,935,924	1,881,989	3,078,764	44,896,677
1930	38,782,577	1,812,146	2,963,631	43,558,354
1931	31,815,808	1,667,852	2,752,209	36,235,869
1932	27,833,633	1,610,407	2,667,919	32,111,959
1933	27,714,480	1,656,675	2,766,471	32,137,626
1934	30,740,117	1,759,528	2,984,512	35,484,157

[1] Record year.

Record figure for a week £1,221,133,000 (week ended July 2nd, 1930.
" " day £282,157,000 (June 30th, 1930).
Average daily turnover for 1930 £141,883,800.

It is perhaps of interest to compare these figures with those for Paris in 1930. During this year the *Chambre de Compensation* of the Paris bankers cleared effects to the value of 482,000 millions of francs. In addition to this there were settlements effected by means of transfers on the Banque de France, these totalled 1,424,860 millions of francs for the same year. We get then a total of 1,906,860 millions of francs equivalent to about £15,359 millions (at par 124·20) whilst the London clearings totalled £43,588 millions, or three times as much those of Paris.

II. OTHER CLEARING HOUSES

Outside London, there are local clearing houses organized at Birmingham, Bradford, Bristol, Hull, Leeds,

Leicester, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. Dublin also possesses a clearing house.

These houses effect settlement in respect of cheques and bills between the banks of their particular cities. Sometimes their settlements are extended to include suburbs and in some cases a county. They are only of secondary importance and the total figures for local clearings in 1930 were only £1,348,423,000 (£1,294,793,000 in 1934).

In addition to these officially organized clearings there are also unofficial clearings in other provincial towns whereby the different banks make their mutual settlements by cheques on their head offices in London.

All these subsidiary settlements are, however, of relatively little importance compared with London, which remains the centre where by far the greater number of cheques are sent for clearing, even in cases where the receiving bank is further away from London than from the paying bank.

From the statistical point of view the figures of the London clearing have very little definite value owing to the fact that they are often affected by considerable movements of funds, between banks which are of purely financial origin. The figures of the provincial clearings, on the other hand, furnish a very useful index of economic activity. They are all the more significant in view of the fact that these provincial clearing houses are usually situated in cities which are themselves the centres of some specific industry or trade (Manchester: cotton; Bradford: wool; and Sheffield: steel, etc.).

III. OTHER METHODS OF SETTLEMENT

There are in England, three other methods of settlement independent of the clearing houses. These are:

(a) *The branch clearing.*
(b) *The agents' clearing.*
(c) *The walks clearing.*

(a) *The branch clearing* is an internal settlement between the various branches of the same bank. The head office centralizes these cheques in three sections — town, metropolitan, and country, and carries out the settlement between them itself.

(b) *The agents' clearing* is concerned with cheques on Scotland, Ireland, and the Channel Islands which are not paid through the country clearing.

Most of the clearing banks have now their own subsidiaries in Scotland and Ireland. The usual procedure is for them to send such cheques to the head office of their subsidiary, which in its turn arranges for their payment. When the cheques are drawn upon a branch of one of their subsidiaries, the clearing banks do not charge any commission. Where the contrary is the case a commission of $\frac{1}{8}$ per mille is charged. The clearing banks who have no subsidiaries in Scotland or Ireland usually have a working agreement with a local bank whereby the latter collects on their behalf the proceeds of cheques remitted to them in return for a small commission.

It is really a contradiction in terms to use the term 'clearing' for these collections by agents. The head office of each bank centralizes all the cheques from its branches which have to go through the agents' clearing and sorts them into parcels for each particular agent.

(c) *The walks clearing.* There are a number of foreign banks and financial houses in the City which open current accounts for their clients. The cheques drawn on such accounts cannot be cleared through the clearing house.

The branches send such cheques which come into their possession to their head office where the walks department

sorts these out under the different paying banks. Messengers are then sent round to present these cheques to the paying banks and to obtain payment in return either in the form of a cheque on a clearing bank or by means of a bank transfer, or even in cash if the amount involved is small.

CHAPTER VII

THE CITY

HAVING now arrived at the end of this section of our study, it may perhaps be of interest to review rapidly the main characteristics of the British banking organization and to consider the material and moral factors which have given rise to the 'City' and which provide for its continuity.

The three dominant features of the British banking system are *the supreme authority of the Bank of England*, a *concentration in banking* which has been carried to an almost extreme degree, and the *existence of houses which specialize in discounting*.

The Bank of England controls not only the monetary unit but the nation's reserves as well, the last resources of all the big banks; and its moral authority over all these big institutions is all the more great because it has systematically refrained from competing with them. On the other hand it is constantly intervening in order to enforce its views on the money market by increasing or decreasing the supplies of money.

The big banks of the country, in spite of their tremendous power, submit to this dictatorship by the central bank without protest. On very rare occasions only has the chairman of a certain bank who is well known for his independence and for the boldness of his ideas, been known to attempt for a few days to counteract the tendencies which the Bank of England has been trying to establish in the money market.

This compliance seems all the more remarkable when we realize that the big banks have no representatives on

the Court of the Bank whereas the acceptance houses are in a privileged position in this connection. There are, however, no protests because it is freely recognized that the decisions of the Bank of England, whether right or wrong, are genuinely given with a view to safeguarding the general interests of the community. If, furthermore, the Big Five are not represented on the Court, there are nevertheless many direct personal contacts between the great English bankers, and the directors of the Bank of England would under no circumstances sponsor an unjust measure which might give rise to a defensive coalition of the big banks.

Lastly there is a pleasing harmony in the 'City' and an absence of sudden jars in the delicate machinery of the monetary markets which is, in a very large measure, due to the unique institution of discount houses. These houses serve to smooth out the inequalities which might appear in the money market and reduce to a minimum the contacts between the Central Institution and the big banks.

The foreigner who has never been to England often asks what this *City* can be whose decisions on monetary matters are awaited so anxiously in all parts of the globe wherever any international trade exists. Those who have been to London and who have wandered through the streets of this famous 'City' have often made inquiries as to the psychological make-up of these business men whom they pass on the footpaths, and of the material riches, the mysterious merchandise, the distant and complex operations which are hidden behind its façades frequently adorned with numerous columns. We will attempt to satisfy this curiosity.

The topography of the City of London is a factor which cannot be ignored in any study of the British banking organization. The subdivision into specialized streets or

quarters which dates from the Middle Ages has remained far more marked in London than in Paris. Furthermore the close concentration of the banks in the City is only surpassed by the crowding together of the financial houses into three dimensions in the point of Manhattan Island, known to the New Yorkers as '*down town*'.

In London as in New York, the close vicinity of the port determined the site of the city, but there has been nothing to prevent the banks from spreading themselves out. Two forces have held them back from moving outwards as the Paris banks have done: tradition and a sense of the practical which has overridden all aesthetic considerations. As far back as 1556, we can trace one hundred and seven goldsmiths in the City; these ancestors of the present bankers were all established either in Cheapside or in Lombard Street. Prior to this, the Jewish money lenders had been confined to a lane which is still called 'Old Jewry'. The street of the Lombards and Cornhill, the names of which go back earlier than 1319, have since that day, always been lined with the houses of the dealers in money. The big banks have, indeed, retained and taken over the picturesque signs which had hung over the shops of the old goldsmiths. Thus Martins Bank is proud of its grasshopper,[1] which was the sign of the goldsmith Bakewell whose business was in existence in the middle of the sixteenth century. Glyn Mills fly the sign of 'the Anchor', the Commercial Bank of Scotland that of the 'Cat and the Fiddle'. Others are a head with a wig, a negro's head, and a constellation of stars.

Lombard Street abuts on to a square of comparatively small size which many Englishmen consider to be the heart of the British Empire. Surrounding the square are the

[1] The Grasshopper actually came from the coat of arms of the famous Sir Thomas Gresham, owner of the site where Martins have been established since 1699.

Mansion House, the abode of the Lord Mayor, the *Royal Exchange* behind whose Greek temple-like façade, Lloyds, the insurance brokers, used to be found,[1] the *Bank of England*, also known by the familiar and affectionate nickname of the *Old Lady of Threadneedle Street*, a large block of buildings including the invisible Stock Exchange, and the two enormous new buildings which are occupied by the head offices of the *Midland* and *Lloyds Bank*, the two largest banks in the world. Behind the Bank of England, the high structure of the head office of the *Westminster Bank* can be seen, whilst *Barclays*, the *National Provincial* and the *Clearing House* are only a few steps away. All round in a space of a half a mile square, there are nothing but banks, stockbrokers, insurance companies, post and telegraph offices, with the restaurants necessary for the feeding of the million or so of people who lunch in the City each day. All the banks are there, as no one of them would stray far from the flock massed close around the Bank of England. This does not, however, exhaust our record of a concentration which is unique through the world, for, behind the banks lie the streets of the shipping companies, those of the textile merchants, a quarter for the importers, and a lane for rubber and spices. All the banks, all the exchanges, and practically all of the markets are to be found concentrated within the square mile of the City.

It should be unnecessary to point out the advantages which result from this situation: economy of time and staff, and a multiplicity of contacts between all the various people who have to work together.

The heads of businesses frequently meet for a quick lunch in one of the clubs of the City or in the sumptuous dining-room of one of the great acceptance houses. Their employees have opportunities for meeting one another in

[1] They have now moved to a new building in Leadenhall Street.

one of the various means of transport which bring them to the City and again when they go to a restaurant for lunch. Thus their professional associations gain in cohesion and in efficiency, and the operations which they carry out amongst themselves are facilitated and speeded up. The broker makes his round of the banks on foot, having only to go from door to door. The most widely dispersed visits can be planned in units of half an hour. The number of messengers is reduced and the rounds of those carrying cash or negotiable securities are short and without risk.

It cannot be sufficiently emphasized that the smooth running of the delicate machinery of the City is immensely facilitated by this close proximity. Its effects are, as we have seen, cumulative, and there is no other monetary centre with anything like it. In Paris, for example, the financial institutions are scattered all over the city and this alone is sufficient to explain the fact that whereas cheques paid in or payments made in London up to 3.30 p.m. are credited value the same day, in Paris they have to be paid in before 11.30 in order that the customer should be credited the same day.

Having traversed rapidly the streets of the City taking advantage of the short cuts offered to the pedestrians by the narrow lanes and passages, we are jostled by a busy but generally unexcited crowd of men in front of the Stock Exchange in Throgmorton Street. There are several groups of brokers, note books in hand, a number of top hats, and numerous bare-headed men with tiny blue or red enamel badges in their buttonholes. The Stock Exchange is not a public place in London. Only the top hatted brokers, their authorized dealers and their clerks are admitted, and it is said that the messengers on the doors (waiters as they are called) know every broker, dealer and clerk by sight. The blue enamel badges denote the stockbrokers' clerks

who are allowed inside the 'House' whilst the red badges are those of the clerks who work in the settling room in the basement checking bargains, etc. Because of the place in which they worked these were, we believe, one time known as 'sewer rats'.

We can pick out of the crowd the junior clerks nearly always bare-headed, returning from their restaurants, the walks-clerks and messengers, the latter frequently old soldiers in the uniforms of the Corps of Commissionaires, the Veterans Corps, or in a uniform peculiar to their own bank or firm. Perhaps the most picturesque of these are the messengers of the Bank of England, who wear wine-coloured tail coats, red waistcoats, and in bad weather, overcoats of a light beige colour. Youngsters in the uniforms of the various telegraph cable companies pass to and fro on foot with messages, usually seeming to arrange their journey in order to have a few words *en route* with their friends. Lastly we may recognize a number of soberly clad gentlemen, often with a certain discreet elegance, and sometimes even with a picturesque Victorian or Edwardian air. These will be the bankers.

We can distinguish many different types, mostly characteristically 'British', in the crowd around us and we are justified in wondering what exactly is the mental and spiritual bond which unites all these different types, and which welds them together into such a great institution as the 'City'.

The foreigner who lives amongst them is struck by their loyalty, their practical common sense, their rectitude and their simplicity. The Englishman comes into the City to carry on his business, and his business life is far more widely separated from his private life than is the case for example in France. If you wish to see the general manager of a big bank or a partner in an acceptance house, once you

have obtained an appointment, you are punctually received without having to wait in an anteroom in order that your interlocutor can demonstrate the importance of his position. The room in which you are received will be soberly decorated, frequently the sole sign of luxury will be the wainscoting on the walls. On the desk there will be no family portraits or *objet d'art.* The conversation will usually be short and to the point without irrelevancies and redundancies and you can usually rely on obtaining an immediate answer to your inquiry. If perhaps your relationships are sufficiently friendly, there may possibly be some exchange of information or some reference to the weather or to the latest sporting event.

There are many well-known families in the City and intermarriages frequently result in a close or distant connection either by blood or marriage, existing between bankers, bill-brokers and stock-brokers. With the exception, however, of the innermost family circles, these relationships do not carry too much weight, other than to guarantee, in a certain measure, the standing of a man and to provide sources for the frequent interchange of information. To have been at the same college at Oxford or Cambridge frequently forms a far closer bond between two men than the fact that they may be cousins. Whether by college or by family connections, there is definitely a sense of a community amongst men of affairs in London which is far stronger than anything exsting in France. 'A city which for six months on end, can obey a sanctionless ordinance to refrain from issuing foreign loans, or to maintain the market rate of discount at a fixed level is no mere agglomeration of banks and brokers, but an organism knit together by bonds of a finer fibre than the common desire to make money.'[1]

[1] Dr. Tugenhat, in the *Financial News* of May 17th, 1929.

This is, indeed, one of the essential characteristics of the City from the psychological point of view. The British possess, in a very high degree, the team spirit, combining a social sense which invites co-operation with a sporting sense of discipline.

This spirit has indeed, been fundamental in the development of the British banks. These were frequently formed by merchants who knew their customers well and who understood their requirements. These friendly relationships have been maintained by successive generations on both sides, and this strong sense of tradition has seen to it that such relationships continue and become even more perfect. There is, indeed, a degree of reciprocal confidence existing in England between the banker and his customers which is really remarkable. The merchant or industrialist rarely has more than one banker, and keeps him fully aware as to his exact position. In return, when bad times come, the banker has not the fear of having his competitors repaid before him, and furthermore, knowing the cause of the trouble, he can continue to give his assistance if it is really justified.

The spirit of collaboration shown by the British banks towards their customers exists also between the banks themselves in many ways. It reveals itself in the close contact which they maintain with one another, in the exchange of information, in the accuracy of the transactions carried out, and in the unfailing courtesy of their communications, all equally well manifested between the junior employees as between the respective managements. A London banker never rejoices over the misfortune of a competitor. One failure is a blot on the prestige of the entire City and damages the reputations of all. This solidarity becomes apparent at once whenever the necessity arises. When circumstances demand a strict watchfulness,

the Bank of England is backed up at once by the banks – and when assistance is required they are always ready to second its generous efforts to maintain intact the good name of the City.

Inside each institution we find the same *esprit de corps*, which is all the more strong in that the bulk of the bank managers have passed their whole careers in the service of one house. Men are rarely taken in from outside, and the resultant team spirit keeps each worker in his own place, breaks up any water tight compartments and lessens the chance of jealousy and rivalry.

The personal qualities of the British bankers play, therefore, a very important part indeed in the predominance of the City of London. The war did to a certain extent disorganize this spirit by rupturing somewhat brutally many long traditions and relationships. Many valuable contacts with foreign countries were lost, and even the experience of centuries did not serve to solve some of the new problems which arose. It is fairly certain that in a world which had become instable in the extreme, the British banks did assume many risks without giving them sufficient consideration. The bitter lesson of the 1931 crisis, has, however, already borne fruit. The complicated but nevertheless perfect mechanism of the British banking system has sustained the shock perfectly. The London money market has justified its reputation and there can be little doubt that a return to stability in monetary matters will result in such a revival in the City that it will once more become the world centre for the financing of international trade.

It must be admitted, however, that the world-wide economic importance of Great Britain has declined appreciably since the beginning of the century. The City of London can no longer lay claim to that absolute degree

of financial supremacy which it held in the nineteenth century. New York certainly hopes to develop its financial power and to perfect its money market. Paris, too, could well play a more important part as a monetary centre, and will probably improve its organization to that end.

PART II

CHAPTER I

THE BANK OF ENGLAND AND THE MONEY MARKET

In the chapter which we devoted to the Bank of England at the beginning of this book, we contented ourselves with indicating its functions and its organization, and with analysing the figures of its balance sheet. We now have to examine this institution more closely and see how it carries out these functions, and how it is able to keep a practical control over the volume of credit in Great Britain. We cannot do better than quote the Macmillan report and elucidate some of its observations.

'The Bank of England, as the central bank, is in complete control of the creation of the cash base of the country, subject to such limitations as result from the statutory restrictions upon the issue of legal tender money and the obligation to meet demands for the export of gold.[1] As regards the former, however, the provisions of the Act of 1928 permit of the expansion of the note issue by an increase of the fiduciary portion.

'By its control over the cash base the Bank of England is in a position to regulate the volume of bank deposits, so long as the joint stock banks adhere to their normal practices in regard to the distribution of their assets, or indeed to offset any change which might be made in those practices. The volume of deposits, in turn, is the approximate measure of the amounts which the commercial banks are prepared to employ in various ways.

'The link between the Bank and the commercial banks

[1] The Bank was released from this obligation in September, 1931.

is established through the discount market which is the first outlet of any surplus funds held by the banks and from which funds are withdrawn when the banks find it necessary to replenish their reserves. If the withdrawal causes a shortage of funds in the market, the market borrows in one form or another from the Bank of England and the accommodation given by the Bank provides the means of replenishing the cash resources of the commercial banks.'[1]

Both as regards banking credits (credit money) and circulating media (bank notes) it seems that everything both begins and ends with the Bank of England. It is, therefore, of interest for us to examine more closely the mechanism whereby credit is created under the British monetary system, and to discuss the parts played by the different organisms and the exact powers possessed by the Bank of England together with their limitations.

The extract which we have just quoted indicates first the powers of the Bank of England and secondly the manner in which these powers are exercised. The Bank of England controls not only the monetary circulation but also the total volume of bank deposits. It regulates the first by virtue of the law and its control of the second results from the British banking organization and is exercised through the money market. The Bank operates in the market both through alterations in its discount rate and by its policy of intervention — its open market policy. We shall study each of these points in turn.

CREDIT CONTROL

1. *Control of the basis for credit*

When we examined the statement of the issue department of the Bank, we traced, at the same time, the British

[1] Macmillan Report, pp. 44, 45, § 96 to 98.

monetary circulating system. We saw then that the Bank of England had the practical monopoly of the note-issuing for the whole of Great Britain.[1]

The fiduciary issue of the Irish and Scottish banks is so small (£4,300,000) that we can ignore it for the purposes of a study of the monetary system. In actual fact the fiduciary issue allotted to these banks will have still less significance if the pound is stabilized at a parity lower than that of 1931. Should this happen the gold holdings and the note issues of the Bank of England will be increased by such a devaluation of the pound and the fiduciary issue of the Irish and Scottish banks will be of even less importance relatively.

With regard to the total circulation the position created by the Act of 1928 is so clearly demonstrated by the weekly statement of the issue department,[2] that very few observations are necessary. The control exercised by the Bank is a complete one but is limited. With the exception of the safety valve offered by the possibility of increasing the fiduciary part of the issue on the authorization of the Treasury, the bank can only vary the total of its note issue in strict accordance with its receipts or losses of gold.

It must not be forgotten that there are a large number of bank notes sterilized in the tills and safes of the banks. The Macmillan committee estimated this amount as being £105 millions for the clearing banks, and suggested that this could be reduced by £40 millions without the banks being in any way inconvenienced in regard to the cash payments which they might have to make. The following table shows that these suggestions have only been followed to a limited extent in 1931 and 1932:

[1] See Part I, Ch. 1, p. 43. [2] Ibid., p. 49.

Variations of the monthly averages of the Clearing Banks 'cash in hand' 'cash at the Bank of England'
(in £ millions)

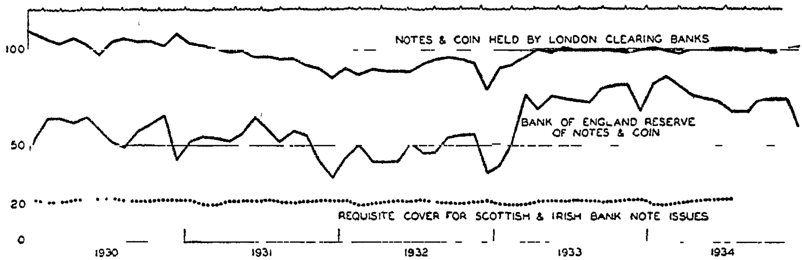
		Notes and Coin held	*'Bankers' Deposits'*
1925	..	103·7	71·7
1926	..	103·1	68·6
1927	..	105·1	66·4
1928	..	104·5	65·5
1929	..	104·4	62·9
1930	..	103·6	65·5
1931	..	95·5	64·7
1932	..	89·6	81·3
1933	..	97·4	99·9
1934	..	99·7	100·3

Note.—The total of the above two columns will be found constantly below the figures given by the clearing banks statements for 'Coin, Notes and balances with the Bank of England', these figures being inflated by window dressing (see Chapter II, p. 94).

Some of the notes retained in the tills of the banks have been returned to the central bank whose reserve has thus been increased by about £15 millions. More has however been done than this. Up to 1930 the quantity of notes held by the banks did not fall at the end of each year. On the contrary they habitually increased their holdings of notes and the withdrawals by the public for Christmas and the New Year were at once offset by corresponding withdrawals by the clearing banks from the Bank of England. This resulted in reducing, quite appreciably, the Bank's reserve and increased at the same time the item for notes in circulation in the statement of the issue department. The following graph shows that in 1931 and 1932, the clearing banks utilized their 'cash in hand' in such fashion as to reduce the strain that the public demand for notes was creating upon the low reserve of the Bank of England.

BANK OF ENGLAND AND MONEY MARKET

FROM THE BANK OF ENGLAND STATISTICAL SUMMARY



This co-operation between the big banks and the Bank of England enabled the latter to avoid an additional increase in the amount of the fiduciary issue in 1931. It prevented, furthermore, in December 1932, a drastic contraction of credit which would otherwise have resulted from the large shipment of gold to the U.S.A. in payment of war debts, at a time when the bank reserve had to bear a heavy seasonal pressure. The clearing banks have thus co-operated with the Bank of England in reducing somewhat the rigidity of the regulations governing the note issue.

Since 1933, however, the parallel increases in the Bank of England gold holdings and in the notes issued have rendered this co-operation less necessary.

By raising their ratio of cash to deposits the clearing banks have been able simultaneously to increase their cash in hand and their accounts with the central institution. The strengthening of the Bank of England position has made it unnecessary for the clearing banks to share any longer with the central institution in bearing the weight of the Yuletide monetary pressure.

However important the fluctuations of the cash balances of the big banks may be, it has to be admitted that cash

payments play a very minor part in the daily life of England and that an enormous majority of the payments made are effected, not in cash but by cheques. We have seen the tremendous figures involved in the clearing of cheques and bank transfers in the chapter devoted to the clearing. It is sufficient, here, to remind readers that it is estimated that 85 to 90 per cent of the total payments made in Great Britain are made without the use of cash, either notes or coin.

It would, therefore, be of little use for the Bank of England to carry out a policy which would only affect the quantity of bank notes in circulation without in any way affecting the volume of the bank deposits or 'bank money'.

2. *The Control over the Volume of Deposits*

In a country where bank deposits were only created by the paying in of legal tender by the depositors, a control over the note issue would suffice as a control over deposits. This elementary phase of credit has, however, been superseded in every country, once the bankers commenced to open credits in excess of the funds deposited with them. In certain countries, such as France, the development of the system of bank credits has remained fairly moderate in extent. In Great Britain, on the other hand, it has been carried almost to an extreme, and it is true to say with Mr. McKenna, the chairman of the Midland Bank, that, to a very large extent, loans make deposits.

The mechanism whereby these deposits are created is well known. When a depositor pays in £1000 in notes or coin, the bank knows by experience that it will be sufficient to retain, in respect of this deposit, a liquid margin of 10 per cent in cash. This might not perhaps turn out to be true for an isolated case, but it certainly does when the

'law of great numbers' comes into play. The banker therefore grants credits or buys securities for £900. The beneficiary of the credit draws cheques on the bank, which are placed to the credit of himself or of his creditors in another bank, the seller of the securities is credited with their value with his bank. There will therefore be, either with the original bank or with one of its competitors, new deposits to the value of £900, which are entirely composed of 'bank money'. The different bankers who have received these deposits of £900, retain 10 per cent in cash – £90 – and grant further credits to the extent of £810. These in their turn create further deposits and the process is continued until the total deposits have reached a figure nine times as big as the original deposit of cash.[1]

When we consider the banking system on a whole we realize that loans and purchases of securities do definitely result in an increase of the total bank deposits. This process has, however, a limitation.[2] A bank which actively creates credits in this fashion, makes itself liable to be drawn upon by cheques in favour of other banks. Unless, therefore, the cheques on the other banks which it receives for its credit are equal to those drawn on it, there is a risk that it will lose a part of its cash balances. In consequence, it is in practice, not possible for a bank to pursue a more vigorous policy of credit expansion than that on which the other banks are agreed.

We have, indeed, seen that the British joint stock banks have a very clearly defined policy in this connection which has been followed with remarkable stability.

If the banks themselves voluntarily impose a limit for the ratio which their liquid resources should bear to their total deposits then there is little point in fixing legally the

[1] With the exception of the case where the credit is used to purchase gold from the Bank of England, or to repay an advance granted by this Bank.

[2] Macmillan Report, p. 34.

reserves which banks should keep, as is done in the United States.

If, furthermore, the proportion of cash to deposits remains fixed, it is sufficient for the Central Bank to exercise its control over this cash in order, at the same time, to control the total volume of deposits, or in other words the total of banking credits.

As the central reserve bank for all the banks of the United Kingdom, the Bank of England is indeed in a position, to a very large degree, to vary at will the cash balances of the banks. As the bankers' bank it centralizes a very large part of the liquid funds of the joint stock banks. The heading of 'bankers' deposits' in the statement of the banking department of the Bank of England has, therefore, an outstanding importance. If the public suddenly withdraws a large volume of deposits from the joint stock banks, the latter have to pay out these depositors from the notes and coins which they have retained as cash in hand. If this movement continues they withdraw further notes from the Bank of England by the debit of their accounts.

The bankers' accounts with the Bank of England constitutes therefore the essential foundation upon which the whole of the edifice of banking credits rests. If we study the variations in 'bankers' deposits' we shall study at the same time the manner in which the Bank of England exercises its control of the money market.

MOVEMENTS OF 'BANKERS' DEPOSITS' DUE TO VARIATIONS IN GOLD HOLDINGS

The following balance sheet is a simplication for the purposes of clarity of the usual weekly statement of the Bank of England:

	£		£
Circulation	360,000	Fiduciary issue	260,000
Reserve	50,000	Gold	150,000
Total issue	410,000		410,000
Public deposits	20,000	Government securities and other securities	50,000
Bankers' deposits	80,000	Notes in reserve	50,000
	£100,000		£100,0000

We will suppose that the Bank loses 10 millions of gold. The reserve of notes in the banking department will be reduced by that amount and so, too, will the 'bankers' deposits'. The gold will have been acquired by an importer who will have paid the Bank of England by a cheque on itself which he will have obtained from his clearing banker. The position will now be:

Circulation	360	Fiduciary issue	260
Reserve	40	Gold	140
	400		400
Public deposits	20	Government securities and other securities	50
Bankers' deposits	70	Notes in reserve	40
	90		90

Receipts of gold by the Bank of England have naturally a reverse effect. All movements in the gold holding of the Bank of England (unless these are for account of the Treasury) will have an immediate effect upon the 'bankers deposits' and through them, in the total of bank credit. The proportion of cash to deposits for the banks will have been reduced in the case illustrated above and the banks will therefore reduce their advances, or sell securities, thus reducing their deposits in order to re-establish the normal ratio.

The process of contraction of credit may be reinforced by the measures which the Bank of England can take to defend its gold stocks. It is known how, during the course of the nineteenth century a policy was gradually evolved whereby variations in the bank rate followed quasi-automatically upon receipts or losses of gold. Whilst in France the central bank does no more than passively adapt its rate to conditions in the money market, the Bank of England, when it alters its discount rate, takes a decision which affects the general level of all interest rates throughout the whole of Great Britain.

In England the bank rate is the basic factor in determining the rate for bank loans, and for overdraft facilities, especially when it is high, as the greater part of these operations are carried out on a basis of Bank rate plus *x* per cent with a minimum of 4 or 5 per cent.

Furthermore, the bank rate governs all kinds of short term money rates in the money market.

The rate which the commercial banks pay for deposits — *bankers' deposit rate* — is, in principle, usually fixed at 1½ per cent under bank rate, whilst deposits with a discount house usually receive a rate ¼ per cent higher.

Lastly, the rate for advances granted by the clearing banks to the money market is as we have seen, based on the bank rate, being usually 1 per cent lower.[1] As a result of this the rate of discount for prime bank bills has to be slightly higher than 1 per cent under bank rate in order that the bill-brokers can use profitably the funds which they have borrowed from the clearing banks.

Variations in the discount rate of the central bank are thus particularly effective in England.

[1] At the end of 1934, owing to the weight of money the clearing banks agreed as an exceptional measure to lend to the money market at ½ per cent against bills and ¾ per cent against bonds whilst the Bank rate remained at 2 per cent.

MOVEMENTS IN 'BANKERS' DEPOSITS' DUE TO OPEN MARKET POLICY

With a universally free gold standard which is functioning properly, a rise in the bank rate tends in theory to correct very rapidly any efflux of gold by attracting foreign capital which is in search of remunerative employment. Even before the war, however, the Bank of England, whilst altering its discount rate more frequently than the Banque de France, developed at the same time a policy supplementary to that of its discount rate. This policy is the 'open market policy' which has been so frequently and so heatedly discussed.

We will now follow out the process whereby the Bank of England is able to influence the volume of credits by buying or selling securities or bills.

Taking the theoretic figures which we used as an illustration on page 211, let us suppose that instead of losing 10 millions of gold the Bank of England sold 10 millions government securities. The results will be as follows:

Circulation	360	Fiduciary issue	260
Reserve	50	Gold	150
Total issue	410		410
Public deposits	20	Government securities and other securities	40
Bankers' deposits	70	Notes in reserve	50
	90		90

We see that a sale of securities or bills by the Bank of England has the same effect upon the bankers' deposits as that occasioned by a loss of gold, and this without lowering the reserve of notes in the banking department. Nevertheless, the ratio of the reserve to the deposits is different in each case.

It was originally $\dfrac{50}{20+80} = 50\%$

In the case of the efflux of gold it fell $\dfrac{40}{20+70} = 44{\cdot}4\%$

In the case of the sale of securities it rose $\dfrac{50}{20+70} = 55{\cdot}5\%$

The net result is that the Bank of England can offset the effects of gold movements on the total of 'bankers' deposits' but it will be to the detriment of the stability of its ratio.

Let us take the previous illustration once more and suppose that the Bank offsets the loss of gold by a purchase of securities. The final result will be:

Circulation	360	Fiduciary issue	260
Reserve	40	Gold	140
	400		400
Public Deposits	20	Government securities and other securities	60
Bankers' deposits	80	Notes in reserve	40
	100		100

and the ratio will be: $\dfrac{40}{20+80} = 40\%$.

These examples show that there are limits to the use of 'open market policy' and that it cannot be used with impunity in order systematically to run counter to the play of the Gold Standard.

It is, nevertheless, indisputable that such a policy of intervention in the market is completely justified so long as

it is used to smooth out the disturbances which arise from seasonal movements or from movements which are essentially temporary.

The Bank of England is able, therefore, to take the necessary steps to safeguard the supply of credit in face of a monetary decline which it knows will be temporary, and on the other hand it can take off the market any temporary excess of short term funds which might otherwise run the risk of causing a falling off in rate and thus deprive the Bank of its control.

The open market policy of the Bank permits it to offset not only an influx or an efflux of gold, but also other causes which may vary the volume of credits.

Such a cause might be a general variation in the ratio of cash to deposits by the banks. We know that the clearing banks keep, roughly, 10 per cent of their deposits in cash or balances with the Bank of England. If these banks were to reduce this ratio to 9 per cent, they could cause a considerable expansion of credit; the Bank of England could, however, reduce their cash by selling securities.[1]

On the other hand it might be more difficult to neutralize an increase in the clearing banks' ratio of cash to deposits. It may be assumed that bankers are always anxious to utilize to the full their facilities for granting credit since in so doing they secure profit earning assets. It is essential, however, to realize that banks cannot create credit when credit is not required. If therefore the banks allow their cash ratio to rise to 11 per cent it is very doubtful if open market operations — i.e. purchase of securities — by the Bank of England will have any effect on the clearing banks other than to cause a further rise in their cash ratio through

[1] cf. Herisson, *Le contrôle du Crédit à court terme par la Banque d'Angleterre*, p. 244.

a new increase in their balances with the central institution whilst their deposits remain unchanged.

The theory that loans make deposits requires qualification. We have already seen how it implies co-operation between the various commercial banks in fixing a common ratio of cash to deposits. Furthermore, in order to increase their deposits the banks must be able to increase their assets, which means that there must be bills for them to discount, advances to grant or satisfactory securities to buy. Circumstances may be such that for all practical purposes assets can no longer be increased. In actual fact this was partly the case in 1934.

Industry and trade demanded no more advances, and offered no more bills for discount. The Treasury in reducing its floating debt was curtailing the supply of Treasury bills whilst the weight of money had already induced the clearing banks to double their holding of gilt edged. Few short bonds were available and the banks were quite naturally reluctant to increase still further their investments in long term securities. As a result their cash ratio rose from 10·4 in 1932 to 11·3 in 1934.[1]

With such a state of affairs in existence the Bank of England can certainly increase still further 'bankers' deposits' in its own balance sheet, but such a widening of the basis of credit would be of no assistance to a trade which did not require further credit. The banks would therefore not be able to increase their deposits in the same proportion.

There is indeed a limit to the management of credit as well as to the management of currencies.

It is not within the compass of this book to ascertain if the Bank of England has, or has not, misused its open market policy in order to pursue a policy of cheap money

[1] See p. 94.

in face of repeated losses of gold. Suffice it to say that subject to the reserve which we have made as to the limit of credit expansion, the Bank of England is able to control the total value of banking credits available in the British monetary and banking system. It is also in a position to control the price at which this credit is offered. Its control is exercised by means of its discount rate policy reinforced where necessary by its open market policy. 'It fixes both (volume and price of credits) – and fixes them to a certain extent independently. It then, in effect, invites the member banks and the money market to co-operate in keeping the bank rate, thus fixed effective on the basis of the quantity of bank money also thus fixed . . .'[1]

It is of interest to note that when the Bank of England wishes the money market to adopt a rate which it considers necessary to fix, it uses discrete but none the less efficacious means to enforce its policy.

In the first place the Bank of England is in very close touch with the bill-brokers. From time to time the leading personalities in the money market are invited to come to see the governor of the Bank. During the course of these 'tea parties' as they are somewhat irreverently called, Mr. Montagu Norman expresses to the bill-brokers his desire to see the next tenders of Treasury bills go at such and such a rate. It is to be presumed that he explains at the same time the reason for this rate. With a remarkable sense of discipline, the hints so received are followed by the market.

Furthermore there is a very close liaison between the Treasury and the Bank which is particularly apparent with regard to the issue of Treasury bills. By varying from one week to another the amount of bills offered and allotted, the Bank of England can guide the money market towards a rise or fall in rates without having to intervene directly.

[1] J. M. Keynes, *Treatise on Money*, t. II, p. 365.

The Bank of England is distinct in this connection from all other central banks. Whilst these are always, with regard to their money markets in a position of being 'the anvil and never the hammer',[1] the Bank of England interferes directly in the creation of credit. In other cases, the central banks await the requests for re-discounts from the commercial banks whereas the Bank of England, on the contrary, takes the initiative in buying or selling securities. For this reason the re-discounting of bills is a fairly rare occurrence in the London market.

In actual figures, the amount of credit with which the Bank of England has to play is relatively very small in comparison with those of the clearing banks. Its credits are, however, marginal ones, and the action exercised on them is very decisive. The fluctuations of these marginal credits immediately affect the money market through the medium of which the whole system is gradually readjusted. The next chapters will enable us to see how the money and discount markets act as a vital part of the credit structure.

[1] An expression of Mr. Paul Warburg, in *The Federal Reserve System*, New York, 1930.

CHAPTER II

THE RESOURCES OF THE MONEY MARKET

THE control of the Bank of England is exercised on the total volume of credits and on their price, but not on their nature. There is not in England a qualitative control of credits similar to that which operates to a certain extent in the United States. In principle, at least, the deposit banks can dispose of the mass of credits in existence as they please. We shall have occasion later to examine the limitations which are placed on their initiative in this connection. Nevertheless, they are free to determine the nature of the uses which they make of their funds, especially with regard to the volume of their discounts and the amount of their advances.[1]

We are particularly concerned here with short term credits and more especially with a statistical attempt to gauge them.

THE NATURE AND ROLE OF MONEY MARKET FUNDS

The total short term funds at the disposal of the London market are as follows:

(*a*) The funds which the banks keep in cash or with the Bank of England. ('Cash' in the wider sense.)
(*b*) The funds lent at call and short notice. (Short loan fund to the Discount Market and to the Stock Exchange.)
(*c*) The bill portfolios held by the Banks.

'Cash' funds are essentially those of the clearing banks and vary approximately from 180 to 200 millions.[2]

[1] See Part I, Ch. II, p. 92, and following.
[2] See p. 94.

We can estimate the sight funds of the other banks at about 50 millions, but as the sight funds of non-clearing banks are mainly left with the clearing banks, in order to avoid duplication they should not be included in any estimate of the funds at the disposal of the market.

The volume of funds at sight owned by the banks has an importance peculiar to London. It not only measures the extent to which the market can stand withdrawals, but it is an essential factor in the contraction or expansion of bank credit. This last is due to the fact that the banks maintain by tacit agreement a roughly constant ratio between their total deposits and their sight funds.

We have already shown that it is through the media of the 'bankers' deposits' that the Bank of England exercises its control over the volume of credit. We must also remember that by varying the proportion of their cash and of their balances with the Bank, the banks can, to a certain extent, weaken or strengthen the position of the Bank of England as well as the efficiency of its control.

These sight funds represent the reserves of the money market, whilst the bill portfolios represent, on the contrary, short term funds already in employment. The aspect of these two items which interests the money market is their fluctuations. The major part of the *money market* is constituted by funds in the intermediary category. These funds are the call and short notice money, the total of which it is convenient to term the *short loan fund* of the money market.

From the above schedule it will be seen that the short loan fund acts as a sort of shock-absorber of the market.

Let us consider the variations affecting the banks' first line of defence. A demand for cash on the part of the public will reduce the bankers' cash and may also reduce their balances with the Bank of England. The increase in note circulation will reduce the Bank reserve and will simul-

taneously reduce 'bankers' deposits' unless the central institution offsets such movements by purchase of bills or securities.

Confronted by this weakening of their first line of defence the banks' first reaction will be to let some of their bills run off without replacing them; but if the demand for cash is greater than the amount of bills maturing daily the banks will then have to withdraw money from the bill brokers.

On the other hand a return of money to the banks will result in an increase in the short loans fund, and it is only gradually that part of these funds will be used in the purchase of bills or securities or in the granting of advances.

Let us furthermore suppose that the banks' bill portfolios are suddenly depleted, for example as a result of an offer of Treasury bills to an amount of only £30 millions during a week in which the Treasury bills maturing total £40 millions. The banks will lend their surplus money to the market rather than keep it idle with the Bank of England or in their tills. On the other hand if there is a substantial increase in their bill holding they will pay for it out of funds called from the market rather than weaken their cash ratio.

THE SHORT LOAN FUND

The lot of any seeker after statistics in this domain is a particularly hard one. He is immediately faced with the difficulty that it is only rarely that figures are published in this connection. It is, however, possible, thanks to personal information which the bill-brokers have been good enough to furnish in confidence, and thanks, too, to an indirect method of estimation which has been evolved, to estimate these figures with enough accuracy, to follow at least their main fluctuations.

(a) *Estimate of the total amount lent to the market*

We can approach the problem, first of all, from the point of view of the borrowers. There exists, in the first place, a theoretic limit to the borrowing capacity of the money market in the fact that the Bank of England will only grant advances to the bill-brokers on the security of bills with a margin of 5 per cent. If, therefore, the market has in view the possibility of the complete re-discounting of its assets with the Bank of England it will not be able to finance more than £300 millions of bills out of borrowings, owing to the fact that the capital resources which it possesses in order to enable it to acquire such margin is only about £15 millions.[1] Let us now turn from the theoretic to the practical.

We have as a starting point, the published balance sheets of the three big discount houses at the end of each year.[2] We have extracted the following particulars with regard to the total funds of these three houses: Alexanders, National and Union Discount Co.

DISCOUNT HOUSES

	Capital & Reserves	*Loans & Deposits*	*Total Resources*
	£	£	£
December 1927	6,050,000	93,120,000	99,170,000
,, 1928	6,810,000	92,450,000	99,260,000
,, 1929	6,860,000	91,550,000	98,410,000
,, 1930	7,470,000	97,520,000	104,990,000
,, 1931	7,470,000	85,580,000	93,050,000
,, 1932	7,500,000	106,820,000[1]	114,320,000
,, 1933	7,600,000	110,900,000	118,500,000
,, 1934	7,670,000	107,900,000	115,570,000

[1] This increase is due mainly to the figures of one of the three houses (the Union Discount) whose deposits have increased by 50 per cent, the remainder having only increased by 10 to 12 per cent.

These figures show that the discount houses keep an

[1] 'Macmillan Evidence', R. Foà. Qs. 1739-1750

[2] See Appendix V

average ratio of about $7\frac{1}{2}$ per cent between their own and their borrowed resources. On the other hand it is known that the bill-brokers' total capital and reserves amount to about the same figure as those of the discount companies[1] and that they generally borrow up to the limit of their possibilities, that is to say they use their own resources as a 5 per cent margin.[2] This explains the fact that at least up to 1933 it was commonly assumed in the market that the three big houses represented approximately 40 per cent of the whole market.

From 1932 onwards this ratio has to be modified. The crisis of the pound and the fall in gilt edged securities at the end of 1931 shattered somewhat the confidence in certain firms of bill-brokers who for a while received less loans. This led to a certain shifting of funds, notably of foreign origin from the bill-brokers to the discount houses. The Union Discount in particular has very considerably increased its figures in 1932. Simultaneously the relative importance of the group of the bill-brokers was reduced at the end of 1931 by the retirement of Blydenstein and Co. from the discount market, and in 1933 by the voluntary liquidation of Baker Duncombe, and by the merger of King and Foà with White and Shaxon. Furthermore, bill-brokers are usually more dependent than discount houses on clearing bank money, and the conditions of the market since 1932 have been such that it was in the interests of the market to repay a certain amount of that money. Taking all these conditions into account we have come to the conclusion that since 1932 the three big discount houses represent 45 per cent of the whole market.

Applying these various ratios to the figures given above, we arrive at the following estimates:

[1] 'Macmillan Evidence', Foà, Q. 1749.

[2] Some went even further, but others were more conservative, therefore 5 per cent can be assumed to represent the average.

BILL BROKERS

	Capital & Reserves £	Loans & deposits £	Total Resources £
December 1927	7,500,000	141,250,000	148,750,000
„ 1928	7,500,000	141,500,000	149,000,000
„ 1929	7,500,000	140,000,000	147,500,000
„ 1930	7,500,000	150,000,000	157,500,000
„ 1931	7,500,000	132,000,000	139,500,000
„ 1932	7,500,000	129,000,000	136,000,000
„ 1933	7,100,000	135,000,000	142,000,000
„ 1934	7,100,000	139,000,000	139,000,000

By adding these figures with those of the discount houses, we find that the total quantity of funds placed at the disposal of the discount market has varied around the figure of £235 millions:

	£
December 1927	234,500,000
„ 1928	234,000,000
„ 1929	231,500,000
„ 1930	247,500,000
„ 1931	217,500,000
„ 1932	244,000,000
„ 1933	253,500,000
„ 1934	246,500,000

To these sums must be added a further £15 millions, representing the capital resources of these houses. This figure of £15 millions has been confirmed by the statements of Mr. Foà before the Macmillan Committee.

We have been able to obtain from other sources some sort of control over these figures. We have been given the figures of a certain number of bill-brokers over a number of years. From these we have been able to estimate the figures lent to all the bill-brokers. This has been made possible by the fact that the relative size and importance of each house is sufficiently well known in the market for us to be able to place those who have refused to give any figures into a

category relatively to the others. This done, knowing the figures for many houses, it has been possible to guess the others and to estimate the total figures within what we believe is a limited degree of error. This direct method of approach gives us the following results which compare very closely with those obtained above:

LOANS TO BILL-BROKERS

	£
1928	150,000,000
1929	145,000,000
1930	158,000,000

It is quite natural that these direct estimates should be somewhat higher than the estimates based upon the figures of the three big discount houses at December 31st of each year. The balance sheets of the bill-brokers are more often made up during the course of the year, and are therefore less affected by the window dressing of the big banks, who increase their liquid resources at the end of each year by calling a part of their loans to the market.

We are justified, therefore, in believing that the figures which we have deduced above can be taken as being fairly accurate. We can, furthermore, obtain yet another control upon them, by finding out from whence these funds come which are lent to the market.

(b) *Origin of the funds lent to the market*

A very great part of these funds are supplied by the clearing banks.

After these come the funds lent by the foreign banks and sometimes by foreign governments, those of the acceptance houses and of other British banks and finally 'sundry loans'. At the end of the year, in addition to these, there are the regular Bank of England advances to the market. Some at least of these items can be estimated in figures.

The balance sheets of the big banks do not distinguish between loans to the stock exchange on carry overs, and loans made to the money market. The distinction has, however, been made by the Macmillan Committee in the appendices to their report. We have taken their figures (columns 1, 2 and 3) in the following table:

TABLE A. ORIGIN OF THE LOANS GRANTED TO THE MONEY MARKET AT THE END OF THE YEAR

(in thousands of pounds)

	1 *Clearing Banks* £	2 *Scottish Banks* £	3 *Foreign Banks* £	4 *Bank of England* £	5 *Sundries* £	6 *Total* £
December 1927	114,533	14,118	38,375	*40,000*	*27,500*	*234,500*
„ 1928	111,261	15,034	47,010	*25,000*	*35,700*	*234,000*
„ 1929	117,351	12,543	33,970	*25,000*	*42,600*	*231,500*
„ 1930	117,495	15,484	35,100	*43,600*	*35,800*	*247,500*
„ 1931	119,365[1]			*20,000*		*217,500*
„ 1932	126,600[1]					*244,000*
„ 1933	119,000[1]					*253,000*
„ 1934	151,000[1]					*247,500*

[1] Including loans to the Stock Exchange.

The first three columns give the average weekly figures during December. We have given an indication in the fourth column of the advances made to the market by the Bank of England at the end of each year.

In order to estimate the advances made by the Bank of England we have to take into account the fact that its statement is not published at the end of the month but on the Thursday of each week. Unless the two coincide (as happened in 1930) the heading of 'discount and advances' in the statement of the banking department will not contain the total advances made at the end of the year. The reason for this will be that some will have been made after the date of publication of the weekly statement or on the contrary some will have been repaid if the statement

appears during the first few days of January. Furthermore, this heading includes the Bank's actual discounts.

It is, nevertheless, possible to obtain a fairly clear idea of the amount of assistance which the money market has obtained from the bank. This can be done by comparing the three last statements of the Bank prior to the close of the year, and by taking into account the indications in the financial press with regard to the daily borrowings of the market and to the amounts repaid in January. Our estimates on this basis appear in column 4.

Column 5 has been obtained by deducting the total of the first four columns from the estimates of the total loans which we have already made. This column of 'sundries' gives us an idea of the approximate amount which the market receives from sources which it is impossible to indicate in detail, such as acceptance houses, assurance companies, English banks not in the clearing, Irish banks and colonial banks.

The real figures for this last item will be considerably higher than that shown in the table because the actual amount which the big banks have in the money market on December 31st will be certainly less than their weekly average for December on account of the withdrawals which they make for the end of the year. The figures in column 5 are therefore lower than they should be by reason of the fact that the figures in column 1 and 2 (averages for December) are certainly higher than they would be on December 31st. Furthermore, during the course of the year the bill-brokers need no assistance from the Bank of England and their portfolios are financed by other lenders. As, too, the monthly average of the loans of the clearing banks is less than the average for December, it must be the other lenders — the 'sundries' — who have to be substituted for the Bank of England at the end of the year.

Let us take the last table once again and see if we can recast it to obtain the average position of the money market during the year rather than at the end of December.

From the Macmillan Report we can take the monthly averages of the clearing banks' loans, and those of the Scottish banks. For the foreign banks we will take the average of the June and December figures (the only ones appearing). We then obtain new figures for column 1, 2 and 3, practically all of which are less than those on the preceding table. This is a normal position if we reflect that the British Treasury bills regularly attain their maximum figures in December and that acceptances are also more abundant at this period owing to the financing of imports of wheat and cotton. It is, therefore, fair to assume that the portfolios of the discount houses reach their maximum also in December and this assumption is confirmed by information from bill-brokers.

This being so, it is necessary also to reduce the total figure of loans to the market, and we believe that it will suffice if we apply to this reduction that ratio of reduction which we have obtained in comparing the first three columns in tables A and B. Advances by the Bank of England disappear entirely during the year, and we can now calculate column 5 anew by the process of deduction once more. The resultant figures are then as shown on the opposite page.

We have so far analysed the various sources from whence funds are lent to the discount market, but we have not yet devised any system of control over the figures which we have obtained for the total of these funds. We have, however, solved certain aspects of the problem and we have limited the margin of error to the heading of 'sundries'

TABLE B. LOANS GRANTED TO BROKERS

(Monthly average)

	1 Clearing	2 Scottish	3 Foreign Banks	4 Sundries	5 Total
	£	£	£	£	£
1927	100,500	12,500	38,500	*59,500*	*211,000*
1928	106,000	12,500	47,000	*55,500*	*211,000*
1929	106,000	13,000	35,000	*64,000*	*218,000*
1930	113,000	15,000	38,500	*79,500*	*242,000*
1931[1]	*100,000*				*217,000*
1932[1]	*96,000*				
1933[1]	*80,000*				
1934[1]	*90,000*				

[1] These estimates for Clearing Banks' loans to the discount market are taken from the next schedule, p. 230.

(c) *Control of the estimates*

The estimates which we have made are believed by several members of the money market to be approximately correct. We doubt whether it is possible to go any further in this process of analysis by subdividing the item of 'sundries'. There is, however, another way in which we can get a rough check over our calculations. This check is provided by the relative size of the loans from the clearing banks as compared with the total of the Short loan fund.

We shall first have to determine the exact amount of the clearing banks' loans to the discount market, and then ascertain the proportion which these funds bear to the total Short loan fund.

From the Macmillan Report and the statistical bulletin of the Bank of England we can extract the monthly average of the clearing banks' 'Money at call and Short notice':

(£ millions)

1927	1928	1929	1930	1931	1932	1933	1934
140	154	148	142	121	116	102	134

From these must be deducted the average loans to the Stock Exchange. Up to 1930 these are known from the appendices to the Macmillan Report. Since then we have had to make estimates in accordance with speculative activity on the London Stock Exchange and with statements such as that made by Mr. McKenna in January, 1935, at the Midland Bank annual general meeting. 'Money at call and short notice has risen by £6 millions, mainly as a result of increased stock exchange activity'.

From the above figures we shall therefore deduct:

(£ millions)

1927	1928	1929	1930	1931	1932	1933	1934
40	48	43	29	*20*	*20*	*22*	*44*

which leaves for the loans to the discount market

(£ millions)

100	106	105	113	*101*	*96*	*80*	*90*

We know that, in each discount house, a certain relationship exists between the loans obtained from the clearing banks and those from other sources.

As a rule the clearing banks lend to the market at a fixed rate of 1 per cent under bank rate. As a result of this, conditions in the market can influence to a certain extent the proportion existing with any one broker at a given moment between *clearing banks' money* and other funds. If, for example, bills are being negotiated at a rate which is below 1 per cent under bank rate, the brokers will try and reduce as far as possible their loans from clearing banks. On the other hand, if the discount rate is very close to bank rate, conditions in the money market will probably be difficult, and the broker will be very pleased to be able to obtain loans from the big deposit banks at a rate which will allow him a substantial profit, even when he has to

pay dearly for the loans which he obtains from other sources.

There is, nevertheless, a certain element of stability over the course of the year in the average proportion which exists between the clearing bank funds in the money market and those from other sources. The relationships between the bill-brokers and the big banks are so close that it is scarcely probable that the bill-brokers will be guided entirely by their own self-interest. There are undoubtedly times (and we have seen such during the years 1932-4) when the brokers pay a rate for their loans which is higher than the yield on their portfolios. They have, however, other sources of profit such as in the buying and selling of securities and in operations in short term Treasury bonds.

Although they seek thus to reduce their borrowing from the clearing banks, they cannot repay all their loans.

It is, therefore, of real interest for us to know the usual proportion of clearing banks' money in the loans and deposits of the discount houses.

This proportion has, in fact, been communicated to us by several bill-brokers. From the various indications which we have received we can conclude that in normal periods the big discount companies obtain substantially less than 50 per cent of their loans from the clearing banks (for one of the companies the proportion is very much less than that figure). The bill-brokers, on the other hand usually obtain about 60 per cent of their loans from the big banks. Taking into account the relative importance of these two sub-divisions of the discount market, it is reasonable to deduce that the clearing banks do not provide quite half of the funds of the money market. In the abnormal conditions witnessed since 1932, the proportion of clearing bank money at 1 per cent has fallen considerably, one reason

being that the average discount rate for Treasury bills which was 1·49 per cent in 1932 was only 0·59 per cent in 1933 and 0·73 per cent in 1934. Under such conditions the brokers were forced to repay large amounts to the clearing banks, such repayments continuing up to November, 1934, when the agreement with regard to rates was entered into (see p. 311 and following).

Taking all these factors into consideration we feel justified in assuming that prior to the crisis the loans from the clearing banks represented about 45 to 50 per cent of the total lent to the market; that this ratio has been substantially reduced since 1932 and probably fell to 33 per cent in 1933 and that it has since then slightly risen but probably still remained below 40 per cent in the first half of 1935.

By applying these ratios to the figures of the clearing banks' loans to the market which we have elucidated in the earlier part of this chapter, the following figures emerge for the total short loan fund. These figures compare very well with those arrived at in Table B:

TOTAL LOANS TO BROKERS

	% of Clearing Banks' loans	NEW ESTIMATES	TABLE B
1927	45 to 50%	£200,000 to 222,000	£211,000
1928		212,000 to 237,000	211,000
1929		210,000 to 235,000	218,000
1930		226,000 to 251,000	242,000
1931		202,000 to 224,000	217,000
1932	40%	240,000	244,000
1933	33%	242,000	253,000
1934	35%	257,000	247,000

We can conclude this somewhat long statistical research by asserting that *since 1927 the Short loan fund has been maintained above £210 millions but has only exceeded £250 millions on a few occasions and then only for short periods.*

HOW THE SHORT LOAN FUND IS USED BY THE MARKET

The total of the bills financed by the money market is substantially below that of the short loan fund, whilst the money market investments in 'shorts' and other gilt edged securities are well in excess of their own resources, their combined capital and reserves amounting to £15 millions only.

The investments of the three discount houses alone reached the following totals:

(£ millions)

1927	1928	1929	1930	1931	1932	1933	1934
13·7	17·3	19·6	17·2	13·7	20·2	28·4	35·5

as against capital resources rising from £6 to 7½ millions. The security holdings of the bill-brokers were well below those of the discount houses during the years of active international trade, and were probably not much in excess of their own resources, say from £7½ to £10 millions. These holdings increased very appreciably in 1930 and since then must have reached a total similar to that of the securities held by the discount houses. This results in nearly doubling the above figures for the whole market, and would give the following figures for the total security holdings of the money market:

24	27	30	34	27	40	56	70

These figures show that an increasing amount of investments have been financed by day-to-day money, as only £15 millions of capital and reserves are available. The portion of investment, thus financed would be in £ millions:

9	12	15	19	12	25	41	55

By deducting these figures from the short loan fund (Table B) we shall get an idea of the net amount available for bills financing, namely:

	I *Available for Bills* £	II *Bills Portfolios* £
1927 ..	202,000	200,000
1928 ..	199,000	198,000
1929 ..	203,000	208,000
1930 ..	223,000	210,000
1931 ..	205,000	194,000
1932 ..	219,000	196,000
1933 ..	212,000	192,000
1934 ..	192,000	173,000

It must be remembered that the bill-brokers and discount houses keep some cash balances, and themselves make some loans, etc. We can therefore expect that the actual bill holdings will fall short of the above estimates (column I).

As a matter of fact, we know that the three discount houses used to represent 40 per cent of the market, and have probably represented 45 per cent since 1932. By applying these ratios to their bill holdings, we get a counter estimate of the market total financing of bills which is shown in column II of the above schedule.

These figures are again very approximate but they prove nevertheless that the *bill holdings of the market have remained fairly stable around £200 millions at least for the last eight years.*

CHAPTER III

BILLS AND THEIR FINANCING

A MONEY market can be, at least to a certain extent, distinct from a discount market. In New York, for example, the *call money market* is allied to the stock exchange. Short term money is lent against securities and not against bills. This does not mean that no relationship exists between the rate of interest on short money and the rate of discount on bills. The relationship however is an indirect one and the rates attained for call money during boom periods in New York are the best proof of this fact.

In London, on the contrary, the money market relies entirely on the discount market, to such an extent that they often appear to be the counterpart of one another.

This is, indeed, true, if we consider both markets in a narrow sense. In the essential but nevertheless limited sphere wherein the bill-brokers and discount houses adjust the supply and demand of money and of bills, the *money market* and the *discount market* coincide, and this is why we have been able in the previous chapter to use these terms alternatively.

When, however, we consider these terms in their wide significance, the coincidental relationship vanishes. The money market embraces all the liquid funds of the banks as well as their bill portfolios. The discount market includes not only the bills in the hands of the bill-brokers but all bills which come on offer.

It is in connection with this larger aspect that we shall now proceed to examine the discount market.

In the first place we shall study the nature and importance of the various types of bills which circulate in London. Having done this, if we group together the information obtained we shall be able to estimate the relative importance of each type of bill as well as the total quantity of bills in the market. Finally the question of the financing of these bills will be examined. The financing is carried out partly by the money market, partly by the British banking system, and partly by foreign balances held in London.

THE DIFFERENT TYPES OF BILLS

The bills which come on offer in the British market can be divided into two main categories, which are in effect an expression of their legal form: *promissory notes* and *bills of exchange*. Each of these main categories can be subdivided in smaller groups in accordance with the origin, the function and the quality of the bills in question. The promissory notes consist mainly of promises to pay issued by the British Treasury, which are known as *Treasury bills*. To these must be added a number of promissory notes issued by various British or foreign corporate bodies, which are known usually in the market as 'fancy' or 'exotic' bills.

As far as we are concerned the bills of exchange can be divided into those which are re-discountable with the Bank of England, and those which are not. The first are those which carry two British signatures of which at least one must be the acceptance of a bank or of a great commercial house. These are known as *bank bills and fine trade bills*. The second subdivision consists of acceptances of foreign banks, of ordinary *trade bills* and of foreign bills which are expressed or payable in London and which are known as *foreign domiciles*.

PROMISSORY NOTES

Treasury Bills

The invention of Treasury bills is due to the ingenuity of Walter Bagehot, the famous editor of the *Economist*. In 1877, the Chancellor of the Exchequer consulted with him as to the best way to meet the requirements of the Treasury by the issue of short-term securities. Bagehot told him:

'The English Treasury has the finest credit in the world and it must learn to use it to the best advantage. A security resembling as nearly as possible a commercial Bill of Exchange — that is a bill issued under discount and falling due at certain intervals would probably be received with favour by the money market and would command good terms.'

This advice was followed and the Treasury bill was created in the following form:

Due 12th July 1928.

TREASURY BILL

Per Acts 40 Vic. c. 2 and 52 Vic. c. 6

£5,000 — B / No. 00,000

London.

This Treasury Bill entitles[1] .... or order to payment of Five Thousand Pounds at the Bank of England out of the Consolidated Fund of the United Kingdom on the 12th day of July 1928.

(Signed) ....
Secretary to the Treasury

[1] If this blank is not filled in, the Bill will be paid to Bearer.

Treasury bills constitute a particularly ideal form of investment. They are three months bills issued by the British government and they enjoy an unrivalled credit, their repayment at maturity never having been brought into question. On due date they are paid on presentation at the Bank of England. They need not necessarily designate a holder, nor do they need endorsing. They can nevertheless be completed by the insertion of a name and by being endorsed thus reducing the risks of theft in the case of bills sent to the Continent.

The fact that the Treasury bill carries no signature other than that of the Secretary to the Treasury is important in that numerous banks have no hesitation in selling them in the market if they have settlements to provide for. They thus constitute a perfectly liquid form of investment which is instantly realizable whenever needed.

The Treasury bills are put into circulation by public tender. When they are offered — actually on Friday of each week — the *London Gazette* publishes a notice, the essence of which runs as follows:

TENDERS FOR TREASURY BILLS

The Lords Commissioners of His Majesty's Treasury hereby give notice that *Tenders will be received* at the Chief Cashier's Office, *at the Bank of England, on Friday, the 10th October, 1930, at 1 o'clock, for Treasury Bills to be issued* under the Treasury Bills Act, 1877; the National Debt Act, 1889; and the War Loan Acts, 1914-1919, *to the amount* of *£40,000,000.*

The Bills will be in amounts of £5,000 or £10,000. They will be dated at the option of the Tenderer on any business day from Monday, the 13th October, 1930, to Saturday, 18th October, 1930, inclusive, and will be payable at three months after date.

The Bills will be issued and paid at the Bank of England.

Each Tender must be for an amount not less than £50,000, and must specify the date on which the Bills required are to be dated, and the net amount per cent (being an even multiple of one penny) which will be given for the amount applied for. Separate Tenders must be lodged for Bills of different dates.

Tenders must be made through a London Banker, Discount House or Broker.

The persons whose Tenders are accepted will be informed of the same not later than the following day, and payment in full of the amounts of the accepted Tenders must be made to the Bank of England by means of Cash or a Banker's Draft on the Bank of England not later than 2 o'clock (Saturday, 12 o'clock) on the day on which the relative Bills are to be dated.

In virtue of the provisions of Section 1(4) of the War Loan Act, 1919, Members of the House of Commons are not precluded from tendering for these Bills.

Tenders must be made on the printed forms which may be obtained from the Chief Cashier's Office, Bank of England.

The Lords Commissioners of His Majesty's Treasury reserve the right of rejecting any Tenders.

Treasury Chambers,
3rd October, 1930.

As a result of this notice, the Bank and discount houses submit their tenders every Friday for the Treasury Bills to be issued the following week. They know the exact maturity of the bill for which they tender and all these bills are issued for three months. In accordance with the period of the year, the three months bills may be for 90, 91 or 92 days. On the other hand if the due date is a Sunday they are payable the day before. In this way a bill drawn in

December or January running over the month of February and falling due on a Sunday in March or April will only have 89 days to run.

Having fixed his maturities the banker calculates the price which he is prepared to offer for one hundred pounds worth of Treasury Bills. If, for example, he is prepared to tender at a rate of $4\frac{9}{16}$ per cent for bills with 91 days to run he will have to tender at £98 17s. 3d. At $3\frac{5}{8}$ for the same tenor, he will have to tender at £99 1s. 11d.

Prices vary by a penny in each £100, fractions of a penny not being allowed. Each tender has to be for a minimum amount of £50,000, the tenderers stipulating if they require bills in denominations of £5,000 or £10,000. Finally, the person tendering has to put in separate tenders for each parcel required bearing different due dates.

The completed tenders are sent in on the following printed form:

No. ....

London,..................19....

To the Lords Commissioners
of His Majesty's Treasury.

My Lords,

In accordance with the terms of the notice in the *London Gazette* of the ....

.... hereby beg to tender for the undermentioned Treasury Bills, for which, or for any less amount that may be allotted to ....

.... agree to give the sum of £ : :
say

per cent.

PARTICULARS OF BILLS

...... of £5,000 each = £..............
...... of £10,000 each = £..............

Total £

To be dated the...... day of .... 19....
To be payable at ....months' date.
.... have the honour to be,

~~My Lords~~,

Your Lordships' most obedient Servant,

Signature..................

Address ....

The tender forms when completed are folded according to a somewhat complicated rite, but are left unsealed, and are taken to the Bank of England by messengers up to 1 p.m., at which hour the tenders close. Everyone waits until the last minute in order to obtain as precise an idea as possible of the probable rate at which the bills will be allotted.

After 2 p.m. the Bank of England announces the result of the tenders. Thus on Friday, November 13th, 1931, it announced that tenders made at a rate of £98 12s. 2d. for three months' bills dated from Monday 17th to Friday 21st had been accepted as to 37 per cent., and those above in full. For bills dated Saturday 21st tenders at £98 12s. 6d. and above were accepted in full. These Treasury bills fell due in February 1932, that is to say they had ninety-two days to run, with the exception of those dated November 21st, which fell due on February 20th (21st being a Sunday).

The rate worked out at a fraction of a penny over $5\frac{1}{2}$ per cent, the cost for the Treasury being £5 10s. od., 35 per annum for every £100.

Treasury bills play the most important part in the market on account of the fact that their total volume has, since the war, always been higher than that of other bills. This held good even during the years when international trade was most prosperous. They held a particularly dominant position during the war and immediate post-war years. From April 1916 to April 1921 the system of subscribing by tender was abolished and was replaced by a system of offers at a fixed rate. This fixed rate was of course often modified in accordance with conditions in the market. The Treasury bills were issued at this fixed rate for three, six and nine months' duration, in unlimited quantities. This was colloquially termed 'on tap' issues, and the Government, in this way, forced the discount houses to follow the Treasury bill rate very closely when discounting other kinds of bills. They were able thus to control the whole discount market.

This system no longer exists to-day, but the Treasury bills remain the principal factor in the discount market. The volume of Treasury bills in circulation reached the enormous total of £1,207,187,000 on July 23rd, 1921, but it was subsequently reduced to a much lower figure by a successive reduction and consolidation of the floating debt.

The weekly statement of the floating debt which is published by the Government shows the following figures for Treasury bills in existence on various dates (end of the calendar year and end of the budget year, which practically correspond to the maximum and minimum totals of bills outstanding):

	£
December 31st 1928	787,985,000
March 31st 1929	700,295,000
December 31st 1929	780,245,000
March 31st 1930	588,885,000
December 31st 1930	690,235,000
March 31st 1931	569,825,000
December 31st 1931	664,480,000
March 31st 1932	604,455,000
December 31st 1932	928,250,000
March 31st 1933	810,455,000
December 31st 1933	938,745,000
March 31st 1934	799,810,000
December 31st 1934	899,710,000
March 31st 1935	799,320,000

We should, however, commit an error if we were to take these figures as they stand, as an estimate of the amount of Treasury bills in the market at any given moment.

Let us turn to another set of published figures, namely those which the Bank of England publish in respect of the weekly issues of Treasury bills. These weekly statistics give us three interesting figures: the amount of bills offered, the amount tendered for, and the amount allotted. The last is not necessarily equal to the first as, if the rate tendered seems to the Treasury too dear, a part only of the bills will be allotted, the Treasury reserving the right to increase the amount offered on the next Friday.

It is quite possible that the amount tendered for might be less than the amount offered. This, however, only happens in exceptional circumstances and the Bank of England would most likely, under such circumstances, put in a tender for its own account, which would cover up the deficiency in tenderers. The market normally needs the new Treasury bills in order to replace those falling due, and if the tenders were to fall off temporarily, the Bank of England would no doubt after several days or weeks be able to place in the market the bills for which they had

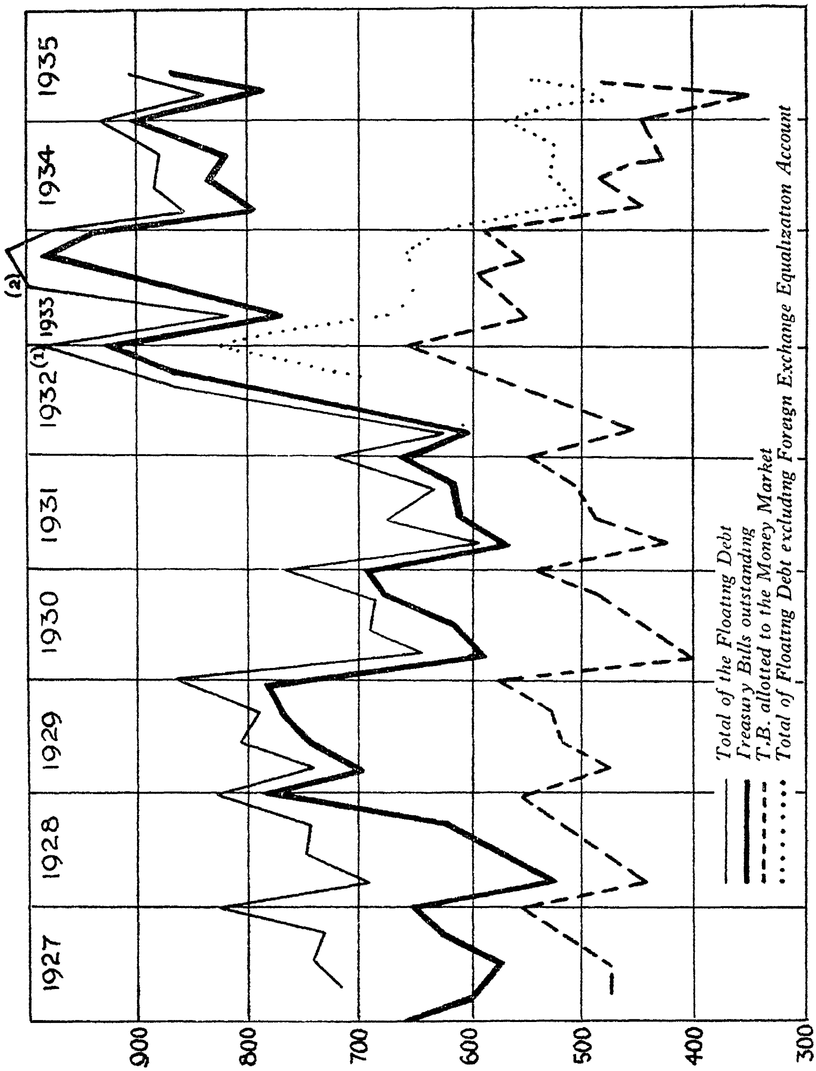
tendered themselves. We do not propose to go further into the question, but we will, instead, focus our attention on the differences between the figures of the Exchequer and those of the Bank of England. Let us take the figures for the weekly issues of Treasury bills for the thirteen weeks prior to March 31st 1931:

Date of the tender	*Date of the Bills*		*Bills offered* £	*Bills tendered for* £	*Bills allotted* £
Dec. 24	Dec. 28	Jan. 3	40,000,000	63,800,000	40,000,000
Jan. 2	Jan. 5	Jan. 10	40,000,000	49,765,000	40,000,000
Jan. 9	Jan. 12	Jan. 17	35,000,000	54,100,000	32,000,000
Jan. 16	Jan. 19	Jan. 24	30,000,000	33,875,000	29,925,000
Jan. 23	Jan. 26	Jan. 31	30,000,000	53,870,000	29,870,000
Jan. 30	Feb. 2	Feb. 7	30,000,000	53,990,000	30,000,000
Feb.	Feb. 9	Feb. 14	30,000,000	44,180,000	30,000,000
Feb. 13	Feb. 16	Feb. 21	30,000,000	35,415,000	30,000,000
Feb. 20	Feb. 23	Feb. 29	30,000,000	36,550,000	30,000,000
Feb. 27	Mar. 2	Mar. 7	35,000,000	41,000,000	35,000,000
Mar. 6	Mar. 9	Mar. 14	35,000,000	51,930,000	35,000,000
Mar. 13	Mar. 16	Mar. 21	30,000,000	49,565,000	30,000,000
Mar. 20	Mar. 23	Mar. 28	30,000,000	68,980,000	30,000,000
					£421,795,000

We see at once that the total of Treasury bills allotted to the market at the end of March 1931, namely £422 millions, is much less than the figure of £570 millions which represents the total of Treasury bills issued by the Treasury during the same period.

The graph which follows brings out the continual and quite considerable difference which exist between these two amounts. We have included the total of the British floating debt on the graph in order to show the quite secondary role played in the floating debt figures by the '*ways and means advances*', when compared with that of the Treasury-bills issues:

FLOATING DEBT (£ MILLIONS)



(1) Including £150 millions for Foreign Exchange Equalization Account.
(2) Including £350 millions for Foreign Exchange Equalization Account.

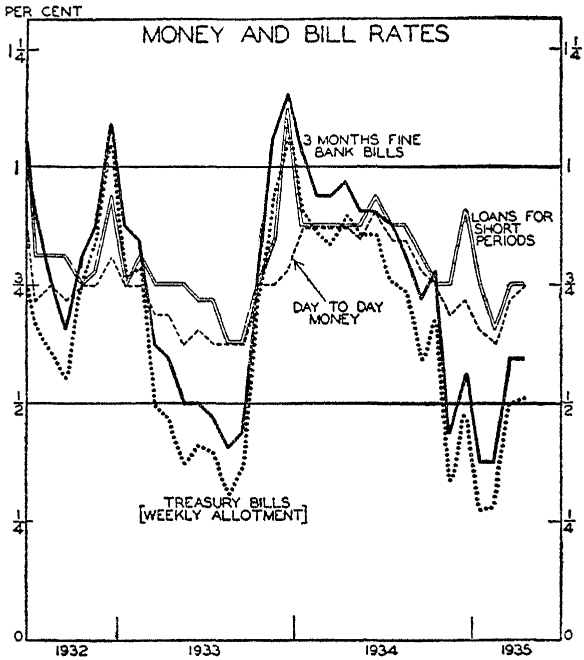
The Treasury bills which are not taken up by the money market—in the broad sense of the word—are issued 'on tap' to meet the requirements of the Bank of England and by certain public services (such as the Post Office). Those held by the Bank of England figure in the statement of the issue department under the heading of '*other Government securities*' Since the amalgamation of the note issues in 1928, this item has rarely contained less than £150 millions of Treasury bills.

We notice that there is a seasonal rhythmic movement in the amount of Treasury bills offered. The total of Treasury bills in existence diminishes quite regularly from December to March, and rises from March to December. These fluctuations correspond exactly with movements in the receipt of taxes.

With these seasonal movements we must, however, take notice of other movements, some of longer duration and some accidental. There was, for example, a constant reduction in the floating debt from 1929 to 1932. From 1932 a considerable increase took place for various reasons: the cost of conversion operations, the repayment of some *Treasury bonds* and the payment to America in December 1932 were all financed by Treasury bills. Above all, the *Exchange equalization fund* was created in June 1932 with an initial amount of £150 millions. This fund was built up by an increase in the floating debt. A further increase in the total of Treasury bills took place in May 1933 when the exchange equalization account was increased from £150 to £350 millions after the United States had abandoned the Gold Standard.

If we take into account only those Treasury bills which are placed in the open market we see that their total has remained fairly constant between £450 and £550 millions during the period from 1927 to 1931. After March 1932, the market was able to absorb a higher quantity of Treasury

bills by reason of the dearth of other bills and tenders were made at rates which, owing to the abundance of short term money available, were more and more favourable to the Treasury. The rate at which Treasury bills were issued has been in fact frequently below ½ per cent and was only stabilized above that rate in 1935 as the result of agreements between the banks and the discount market on the one hand and between the discount houses themselves on the other hand.



From the Bank of England 'Statistical Summary'.

2. *Fancy Bills — Exotic Bills*

The example given by the British government in issuing promissory notes on the London market has been followed

by many foreign governments as well as by many British corporate bodies. These authorities have formed the habit of borrowing from the London money market either because of a temporary shortage of money, or because they have come to the short term market in order to be able to wait for a favourable opportunity to consolidate their short term indebtedness by an issue of securities on the London finance market.

In this way a number of bills of diversified origin are thrown upon the market, enjoying very unequal degrees of credit according to the signatories thereof. The brokers usually give the name of 'fancy bills' or 'exotic bills' to these promissory notes. We can divide these bills into two main subdivisions, the Treasury bills of foreign, dominion and colonial governments, and bills of British origin.

(a) *Foreign and Imperial Treasury bills*

These bills have been quite frequently seen in London, especially since 1925. They are usually offered direct to the banks by the British bankers of the foreign governments in question. In this way Hambros Bank have offered Greek, Finnish and Norwegian bills, Baring Argentine bills, Schröders bills of the State of Hamburg and Rothschild Chilean bills. Sometimes, when countries within the Empire are issuing such bills, they are offered to public tender. This was done in the case of Australian, New Zealand and Kenya bills. Finally we should not forget the Indian Treasury bills. The Indian government periodically offers three months' bills for tender. These bills are issued at Calcutta and are expressed in rupees. They are usually issued at a rate higher than that for the British Treasury bills. A certain amount of these Indian bills are taken up by the British banks when they can simultaneously carry out a favourable sterling-rupee-swap

operation. Indian Treasury bills are therefore usually negotiated in London with the guarantee of one of the big banks for the exchange.

Before the crisis of 1931 the issues of foreign Treasury bills in London had assumed a certain degree of importance. Between 1925 and 1931 we saw the issues of the Argentine (£5,000,000), Chili (£3,000,000), Finland (£500,000), Norway (£725,000), Greece (£1,500,000), Hungary (£1,000,000), and of the cities of Hamburg, Berlin and Frankfurt. The most important of these were the issues of the Argentine Republic who between January 1929 and December 1931 had £5,000,000 permanently placed in Treasury bills in the London market. The Chilean bills and those of the German cities have remained frozen in the hands of the banks by the 1931 moratoria.

Issues of Imperial Treasury bills also assumed some considerable importance. From September 1929 onwards, the Commonwealth of Australia made frequent issues of Treasury bills, at first for one year, and subsequently for shorter periods of five, six or seven months, and finally for three months only. Up to the end of 1931 the total of Australian Treasury bills on the London market was rarely less than £8 millions, and in May and June 1931 this total reached £17,950,000.

In 1931 New Zealand also placed Treasury bills in London for an amount of £4,000,000. The rate of exchange on London was then unfavourable and New Zealand hoped to be able to pay the bills off at a time when the New Zealand pound stood higher.

Kenya Colony made an issue of £1,000,000 which was subsequently consolidated by the issue of a long term loan.

Finally the Canadian province of New Brunswick placed in London through the medium of the Bank of Montreal, an amount of £975,000 in bills in November 1928. These bills

were subsequently renewed for periods of six or twelve months up to 1932.

(b) *Treasury bill of British authorities*

The system of Treasury bills proved so successful that it was adopted by a number of British authorities in order to obtain money under favourable conditions.

We can cite the following authorities who have borrowed:

Port of London Authority,
Metropolitan Water Board,
Liverpool City and County Borough,
Edinburgh,
Glasgow Corporation,
Southampton,
County of Ayr,
Mersey Docks and Harbour.

These bills were usually issued for periods of six months or one year, and the amounts involved frequently reached one or two millions sterling. They were all renewed several times.

The development of the 'fancy and exotic' bills prior to the crisis in 1931 was extremely interesting as it indicated that authorities of this kind, whose credit was sufficiently good, could, on occasions, obtain quite large sums without having to go to the banks. Bill-brokers, discount houses and assurance companies are always ready to tender for such bills, and the conditions of open competition are such that the rates obtained are very much more favourable than would be the case with an advance from a bank. It is quite possible that if the British government short term debt becomes greatly reduced by means of amortization or consolidation, the money market, finding itself short of commercial bills will show itself disposed to grant large credits to the issuers of fancy bills.

The total amount of these bills which might be in circulation is, needless to say, very small compared with the figures

either of British Government Treasury bills or of commercial bills. Nevertheless they are far from being negligible.

We have estimated that these bills, most of which appeared in 1929, reached £20 millions at the end of that year. By the end of 1930 they were more than £35 millions and at the end of 1931 they still amounted to £30 millions. A considerable reduction in the total of these bills ensued during 1932 and 1933; but in 1934 there was quite a distinct revival of borrowing by British authorities in a similar manner and at incredibly low rates of interest.

BILLS OF EXCHANGE

The bills of exchange which are negotiated on the London money market can be divided into two main categories according to whether they carry the signature of a bank or not. These two types are known as *bank bills* and *trade bills*.

The bank bills are by far the more important for the money market. They are essentially bank acceptances. To these must be added the acceptances of certain very rare companies whose standing is practically equal to that of the banks.

Trade bills are ordinary commercial bills.

In order to complete our survey we must mention the foreign bills payable in London. These bills, known as *foreign domiciles*, are of no interest to the market and are never negotiated.

1. BANK BILLS

(a) *Prime Bank bills*

We shall see in the following chapter, what a variety of commercial transactions are carried out in London and financed by the bankers of the City. This financing is

usually carried out by means of an acceptance. The practice of bank acceptances which leads to the creation of these bills is a system which is essentially characteristic of the London market. We saw, when we considered the merchant bankers, how this custom was introduced, whereby the banks accepted commercial bills in order to make them more readily marketable and in order to obtain more favourable discount rates. There are several different methods employed whereby a bank acceptance can be obtained in respect of a commercial transaction.

(a) *The opening of an acceptance credit by the banker of the buyer in favour of the seller.* The bank, having seen the commercial documents are satisfied as to the genuineness of the transaction on which the credit is founded. They then grant a clean credit, if the buyer is one of the banks' first class customers, or, in other cases, with partial or total guarantees which are usually given by means of a deposit of securities. If there are a series of similar transactions, the acceptance credit is opened for a limited period and during that period, and up to the limit of the credit, the seller draws successively on the bank.[1] Once the bank's acceptance is on the bill, it can be negotiated by the seller of the goods with the utmost ease and at the best rates.

(b) *The opening of an acceptance credit by the banker of the seller for the latter's benefit.* This method is chosen when the credit of the seller is higher than that of the buyer. The seller obtains the acceptance of his banker, and the buyer pays the acceptance commission in the form of an enhanced price for the goods.

(c) *The opening of an acceptance credit for the benefit of the buyer by the latter's own banker.* This is a somewhat exceptional case which enables a buyer to pay cash to his

[1] If the drawer is permitted to replace maturing bills by fresh ones, within the limits of the credit, this is known as a *revolving credit*.

seller. At the same time the buyer is able to negotiate a bill which will enable him to put off payment for two or three months. This form of credit is only met with in internal trade.

We have already shown[1] how British bank acceptances were originally only used to finance imports into Great Britain from abroad, and were later used to enable the British exporters to realize the debts due to them from their overseas customers. We have seen too how they finally became one of the principal methods of financing international trade.

Ruffers have given us the following examples of commercial operations carried out between foreign countries but financed by themselves from London: Export of sugar from Java to British India, of tea from India to South and Central America, of rice from India to Cuba, of dried goods from Uruguay to Cuba or Venezuela, and of shellac from India resold at Barcelona through a Hamburg broker.

Let us examine one or two examples which will enable us to understand better the role played by the British banks in commercial operations which have no connection with England.

(1) An Italian importer buys silk from a Japanese seller. The Italian goes to his bank, perhaps the Banca Commerciale Italiana, and asks it to open an acceptance credit with Hambros Bank or with any other London bank, in favour of the Japanese silk merchant. Hambros inform their Japanese correspondent — say the Mitsui Bank — that it is granting this credit and that Mitsui can discount bills drawn on Hambros by the Japanese seller up to the limit of the credit granted. The latter thus obtains a quick payment for his goods by sending the drafts to the Mitsui Bank.

The Japanese bank will discount the drafts and may

[1] See Part I, Chapter IV.

detach the documents of title to the goods and send them direct to Italy, sending the drafts at the same time to the Japanese bank's London house by whom they are presented to Hambros for acceptance. The drafts are then negotiated in the market and the proceeds are credited to the account of the Japanese bank in order to repay it for the advance which it has made to the Japanese silk merchant. More often, however, the documents of title to the goods are forwarded to London with the drafts and Hambros will examine these themselves before accepting the bills. If Hambros are satisfied with the documents they will detach them and send them to the Banca Commerciale Italiana for account of their Italian customer, accepting the bill at the same time and handing it back, accepted, to the London representative of Mitsui. Some time before due date of the bill the Banca Commerciale Italiana will repay Hambros for account of the Italian buyer, and the bill-broker who has purchased the bill from the London agent of Mitsui will present it to Hambros on due date, for payment.

(2) A French seller sends textiles to Uruguay and wishes to be paid in sterling. The Uruguayan buyer is not well known and it is badly placed for obtaining an acceptance credit. The French seller writes to the Crédit Lyonnais in London who open an acceptance credit for him. He then draws bills on the London branch of the Crédit Lyonnais who accept them after they have received the documents. The French seller can then negotiate the bill on the London market.

The Crédit Lyonnais will send the documents to their correspondent in Uruguay who will hand them over to the buyer against payment for the goods.

Acceptances are created through the same chain of circumstances by all the London banks. We saw previously how great had been the development since the war in the

granting of acceptance credits in the form of *reimbursement* credits granted to foreign banks as against the other system of granting to individual firms. All banks which do acceptance business do, in fact, grant all the various forms of acceptance credit.

These acceptances are however not all marketed at the same price. In principle there is only one rate of discount for all bank acceptances, a rate which varies solely with the tenor of the bill. In actual fact, however, when a small house accepts bills to a figure which is too high, the buyers of bills perceive very quickly that the proportion of paper in their portfolios which has been accepted by that house is abnormal, and they proceed to penalize it in the first place by discriminating in quantity, that is to say by accepting only a small amount of X's acceptances mixed in with a large amount of other acceptances. Should this prove insufficient, a rate higher by $\frac{1}{32}$, $\frac{1}{16}$, or even $\frac{1}{8}$ per cent than the normal rate is charged for the acceptances of X.

Besides these exceptional cases there is one other general exception to the rule that there should be only one rate for all bank acceptances.

(b) *Foreign Agency bills*

The Bank of England only recognizes as bank bills such bills as are accepted by banks the majority, if not all, of whose assets are held in Great Britain, and which, at the same time, carry the signature of a second English bank. This definition means that bills which are accepted by the London branches of colonial or foreign banks are not eligible for rediscounting by the Bank of England. The result is that there is a slight difference in rate between the *fine bank bills* and the remainder which are usually known as *foreign agency bills*. Scarcity of bills may however help the

foreign agencies to get their bills discounted by the market at the most favourable rate.

In this category we find bills such as those accepted by the London branches of the Crédit Lyonnais, the Guaranty Trust Co. of New York, and of the Banque Belge pour l'Etranger. The English point of view with regard to such bills is that the assets of these banks being held abroad, do not give sufficient security nor one which is sufficiently easily realizable. Ordinarily the banks only take limited quantities of such acceptances, and at a rate higher than that for real bank bills. The difference used to be about $\frac{1}{16}$ per cent. Very often the brokers mix a small proportion, 5 to 10 per cent, of these foreign agency bills in with the parcels of bank bills which they sell. In such cases the rate will be the same, but if the proportion of foreign agency bills reached 20 per cent, the buyer might ask for some discrimination in rate.

2. COMMERCIAL BILLS

(a) *First class Commercial bills*

There are numerous commercial bills which bear acceptances other than those of banks. A certain number of these are considered as being first class commercial acceptances, and as such are accepted by the Bank of England for rediscounting. Because of this fact, these bills are very similar to bank bills.

Examples of acceptances of this nature are those of the great shipping and shipbuilding companies such as the Cunard, and Harland & Wolff. These bills[1] are usually termed *shipping bills* and are negotiated on the market at about $\frac{1}{16}$ per cent or $\frac{1}{8}$ per cent higher than the rate for bank bills. Similar bills are those accepted by the big

[1] They are frequently 6 months' bills.

refrigeration companies such as the Union Cold Storage or by the great East India merchants.

(b) *Trade bills*

All other commercial bills come into the category of trade bills. Unlike those previously mentioned, these bills practically never come into the market. They are discounted direct by the deposit banks for their clients, and only a very small proportion indeed are taken by the acceptance houses, by some of the bill-brokers and by the Bank of England. When taken they are discounted at a rate higher than bank rate (whilst other bills are always negotiated at under bank rate) and the buyer holds them in portfolio until their due date.

It is, in consequence, extremely difficult to obtain any idea of the amount of trade bills in existence at any given moment, especially in view of the fact that a certain number at least of these bills are financed by commercial houses and are never discounted by the banks. Their amount should, however, not be considerable.

3. FOREIGN DOMICILES

Foreign domiciles are bills drawn by one foreigner upon another foreigner, but which the acceptor has made payable in London. This type of paper which is taken by continental banks, has no market whatsoever in London. Before the war, foreign domiciles were occasionally negotiated in small amounts. Since the war neither the joint stock banks nor the merchant bankers have ever taken them openly into their portfolios. The foreign banks or discount houses which discount such paper are obliged to hold them until their due date. They are therefore in the nature of a temporary lock up and this alone justifies

the high rate of discount which is usually charged for these bills. They are discounted at a rate higher than bank rate and frequently higher than that for trade bills.

The Bank of England tries to discourage these domiciles which bring no profit to the London banks. It refuses to discount them even if they are endorsed by first class British banks.

STATISTICS FOR BANK ACCEPTANCES

Bank acceptances, after Treasury bills, play the greatest part in the London market.

It is therefore of interest for us to try and obtain some statistical information, not only with regard to the total amount of acceptances in the London market but also with regard to the relative importance of the different groups of banks who grant acceptance credits.

The appendices to the Macmillan report give us a good starting point. If we combine the first and second tables of these appendices we obtain the following figures:

TABLE A

Acceptances of ten clearing banks and of six out of the eight Scottish banks.

	1927		1928		1929		1930		1931
	June	Dec	June	Dec	June	Dec	June	Dec.	March
10 Clearing Banks	48,650	53,140	62,510	83,350	74,530	66,620	59,310	51,750	47,410
6 Scottish Banks	3 540	4,320	3,610	4,810	4,630	4,950	3,850	3,930	3,050
Together	52,190	57,460	66,120	88,160	79,160	71,570	63,160	55,680	50,460

These statistics close at March 1931 and we shall have to seek elsewhere for the remaining years. The monthly statements published by the clearing banks contain an item for 'acceptances etc.'. The heading includes, however, not only the acceptances but also various other engagements which appear simultaneously both as assets and as liabilities, such as foreign exchange forward contracts.

If we compare these figures from half year to half year with the figures given in Table A, we find that the average ratio between these two figures is about 42 per cent with very little deviation. If therefore we apply this ratio to the figures for 1931 and 1932 we get a fairly clear indication of the amount of acceptances of the clearing banks:

TABLE B

Acceptances of the Clearing banks (42 per cent of the December averages) and of six Scottish Banks

	1931	1932	1933	1934
10 Clearing banks	42,900	37,500	47,500	51,200
6 Scottish banks	4,100	4,000	5,200	7,100
	47,000	41,500	52,700	58,300

In the next table we have grouped these figures with those given in the Macmillan report, and also with the acceptances of a seventh Scottish bank and the three provincial banks which accept. (The Irish banks do practically no acceptance business.) We obtain the following final figures for the total of acceptances granted by the *Joint Stock banks* at the end of every year:

TABLE C

Acceptances of the Joint Stock Banks
(000's omitted)

	1927	1928	1929	1930	1931	1932	1933	1934
10 Clearing and 6 Scottish	57,500	88,200	71,600	55,700	47,000	41,500	52,700	58,300
Others	1,360	2,060	1,670	760	700	600	700	2,200
Total	58,860	90,260	73,270	56,460	47,700	42,100	53,400	60,500

We find some extremely valuable information in the Macmillan report with regard, also, to the acceptances of the merchant banks. We were able to complete these figures when we studied the balance sheets of these houses[1] and we arrived at the following figures:

TABLE D

Acceptances of the Merchant Bankers

(£ millions)

	1927	1928	1929	1930	1931	1932	1933	1934
Acceptances for foreign account	108	149	136	125	—	—	—	—
Acceptances for British account	16	21	19	18	—	—	—	—
Total	124	170	155	143	*92*	*80*	*79*	*80*

This leaves us with the Anglo-Foreign, the imperial, and the foreign banks. There are no precise details with regard to these last but we can find out the exact figures for the sterling acceptances of the Anglo-Foreign, and numerous imperial banks. We give in Appendix IV to this book a table showing the acceptances granted by the Anglo-Foreign, the Anglo-Indian, and the Anglo-African banks.

The sterling acceptances granted by the Australian, Canadian and foreign banks cannot be stated with any exactitude. It would appear that amongst the foreign banks in London, the American banks are those who have done the greatest amount of sterling acceptance business.

It is not likely, however, that the total acceptances granted by these banks have ever exceeded a total of thirty millions, of which about one-half can be attributed to the Australian and Canadian banks. This figure which

[1] See Part I, Ch. IV, p. 162.

is calculated for the years 1928-9 has since been considerably reduced.

With the reserve that the figures for the last item are only very approximate we can now recapitulate the total figures which we have obtained as follows:

ACCEPTANCES. RECAPITULATION

(in thousands of £)

	1927	1928	1929	1930	1931	1932	1933	1934
Merchant Bankers	124,000	170,000	155,000	143,000	92,000	80,000	79,000	80,000
Joint-Stock Banks	58,860	90,260	73,270	56,460	47,700	42,100	53,400	60,500
Anglo-Foreign Bks.	19,500	23,700	24,700	24,300	23,800	11,300	9,200	9,000
African and Indian Banks	13,700	13,900	11,200	9,000	6,500	7,000	8,000	8,500
Other Banks	25,000	30,000	30,000	25,000	15,000	10,000	10,000	10,000
Total (in round numbers)	241,000	328,000	294,000	258,000	185,000	150,000	150,000	168,000

We can deduce from these figures that the economic crisis and the instability of the pound have reduced by approximately one-half the acceptances of the London market. It is indeed surprising that their total has not been reduced still further, in view of the fact that world prices have fallen by about 50 per cent between 1929 and 1932, and that the world international trade has fallen off considerably.

Two facts have contributed to the maintenance of the figure for acceptances at its 1932 level. In the first place the pound has depreciated by about 40 per cent of its par value, and secondly the German acceptances which were in the market have become frozen. These German acceptances reached a figure of £45 millions in 1931. Some have been repaid, but there were still £30 to £35 millions in existence at the end of 1932. Since then their total has been further reduced.

There is no doubt but that a large proportion of these German acceptances, as well as those of Austrian, Hungarian and other origins have been progressively taken off

the market by the acceptors who have held them in their own portfolios.

The amount of acceptances circulating in the market in 1933 is therefore very much lower than the total figure of acceptances in existence. The moderate increase in 1933 was not only due to a slight revival in international trade but was also due to the fact that when the dollar went off gold a certain amount of acceptance business carried in New York for account of countries in the Sterling 'bloc' was brought back to London.

AMOUNT OF BILLS OFFERED FOR DISCOUNT ON THE LONDON MARKET

Let us now summarize the information which we have obtained with regard to the total quantity of the different types of bills negotiated on the London market, leaving out these Treasury bills, which are not offered to public tender. We obtain the following table which gives an indication of the value of the different types of bills in existence at the end of each of the last few years:

(£ millions)

	1927	1928	1929	1930	1931	1932	1933	1934
Treasury bills	556	560	573	550	540	661	592	449
Bank acceptances	241	328	294	258	185	150	160	168
Fancy bills			20	35	30	20	10	10
	797	888	887	843	755	831	762	627

This table brings out very clearly the predominant and increasing part played by the Treasury bills in the London discount market. The market rate is, as a matter of fact, practically controlled by the rate at which Treasury bills are allotted each Friday. This is, indeed, so much the case

that it is often very difficult to deal in the discount market on Friday mornings, because the brokers wish to wait to see the result of the tender.

At about twenty minutes to one every Friday it is possible to observe a group of gentlemen in top hats standing in front of the Royal Exchange. These are the principal bill-brokers and they constitute a sort of syndicate the members of which agree amongst themselves as to the rate at which the 'market' is to tender.

It is, of course, always possible that the tenders of the banks will have been made at a different rate and that the final rate which is announced will not be that desired or awaited by the brokers. Nevertheless as soon as the tender rate is known the market rate is adjusted at once.

We can, therefore, say that since the war, the Treasury bill has been the basis for both the money and discount markets.

The above table takes no account either of trade bills or foreign domiciles, but nevertheless shows totals averaging to about than £800 millions. Even when we take into account the fact that the issue of Treasury bills reaches its maximum about December and that the acceptances are also highest about this time, we still find that the *total of sterling bills (including Trade bills) is never less than £600 millions and must have reached one thousand million pounds.*

How then are these bills financed?

FINANCING OF STERLING BILLS

In the table which follows, we have grouped together the bill portfolios of the different elements in the British banking system at the end of each year. The information is that which we have elucidated during the course of our previous chapters.

DECEMBER BILLS HOLDING

(£ millions)

	1927	1928	1929	1930	1931	1932	1933	1934
10 Clearing and 6 Scottish	239	264	227	323	240	390	341	279
Discount Market	200	198	208	210	194	196	192	173
Acceptance houses	39	43	39	32	17	19	15	16

It is not possible to estimate the exact amount of bills which are held by the Bank of England. By this, we do not mean those Treasury bills of which we spoke previously which are not offered for public tender. We refer to those Treasury bills which the Bank has purchased from the market and which figure under the *Government securities* of the banking department, or those commercial bills which it keeps under the heading of *other securities* (as 'loans and advances' if they have been brought to the bank for discounting, and as 'securities' if the bank has purchased them on its own initiative).

We do, at least, know the total of these figures and we can assume that the discount portfolio of the Bank of England is much smaller. The figures for the Banking department at the end of the year include a fairly high figure for advances made to the money market against bills which remain the property of the discount houses. In addition to this, the items in question contain assets other than bills (see above p. 55). The figures for the banking department at the end of each year are as follows:

	1928 (Dec 26th)	1929 (Jan 1st 1930)	1930 (Dec. 31st)	1931 (Dec. 30th)	1932 (Dec 18th)
Government securities	67,296,855	81,658,618	81,021,247	95,340,000	102,371,824
Other Securities					
(*a*) discount & advances	25,931,966	42,170,602	48,962,458	27,290,602	18,509,400
(*b*) Securities	18,853,964	18,013,503	23,690,166	37,612,864	17,738,428

Taking all the observations which we have made into account we can presume that the total of bills held by the banking department at the end of each year varies between £50 and £100 millions.

From this we see that the British banking system only finances a part of the sterling bills in circulation. More than £500,000 millions are financed in this country but probably less than £700 millions. It follows that a considerable amount of sterling bills are financed by the Anglo-Foreign, and the colonial and dominion banks, as well as by the foreign banks whether established in London or not, and by foreign governments and even various foreign companies.

It is difficult to find out any precise figures for this financing, but much light is shed upon this question by certain of the figures published in the Macmillan report. We have extracted the following figures from tables 9, 10 and 11 in the appendix to that report:

STERLING BILLS HELD IN LONDON ON FOREIGN ACCOUNT

(000's omitted)

	Dec. 1927	Dec. 1928	Dec. 1929	Dec. 1930	March 1931
1. By the Bank of England, the Clearing Banks and 6 Scottish Banks:					
(a) For Banks with Head Office abroad	133,541	173,029	163,971	119,121	108,802
(b) For governments	22,923	13,790	26,293	16,817	19,521
(c) For sundry clients	5,155	8,494	9,962	8,787	8,491
2. By acceptance houses	13,115	16,863	19,379	8,040	7,380
Total	174,734	212,176	219,605	152,765	144,194

We see from these figures that during the four years under review, the British banks had bills to the extent of £150 to £220 millions on foreign account.

These figures do not contain those for bills held in London by the London branches or agencies of foreign banks, nor those bills held by dominion and colonial banks. (The bills held by the Anglo-Foreign banks are negligible — two to three millions.)

From all these figures we can conclude that up to the 1931 crisis *very nearly a third of the sterling bills, namely £250 to £300 million, were financed outside the British banking system.*[1]

This is an extremely interesting phenomena, and one which brings out very well the manifold advantages of the London market. If foreigners placed large sums of call money in London, or if they bought a considerable quantity of bills, it was because the organization of the London market assured them both of the security and liquidity of these funds, to a degree which is unknown in their own markets. It was thus a time-honoured tradition of the French banks to keep part of their cash balances in London as a result of the lack of flexibility of the Paris money market.

[1] Always excepting the Treasury bills taken by the Bank of England direct or taken by public departments

CHAPTER IV

COMPARISON BETWEEN THE LONDON AND PARIS MONEY MARKETS

THOSE readers who are familiar with the organization and working of the Paris money market, will have been struck by the fundamental differences which exist between this market and that of London. In order to make these differences stand out more clearly, we shall recapitulate in the present chapter and attempt to analyse them. We shall find that the very size of the London market makes any comparison with Paris rather overwhelming. We shall see furthermore that the technical organization of the London market forms a complete entity and that it would be extremely difficult to adapt any one detached part of it to the entirely different machinery of the French banking system.

PERMANENT CAUSES OF LONDON'S SUPERIORITY

In order to account for the permanent reasons for the superiority of the London market, we must first consider it in its proper setting, namely in Great Britain, and more especially in the City, the town and the port of London.

Great Britain is a country with a population roughly equal to that of France, but that population is in possession of a far greater quantity of accumulated riches. In 1930, the statistical services of the Dresdner Bank, and Mr.

Harvey Fisk of the Bankers Trust Company made simultaneous, but independent, estimates of the average income per inhabitant for different countries. With regard to Great Britain and France, the estimates were as follows (in dollars)[1]:

	Dresdner Bank	*Harvey Fisk*
Great Britain	392	409
France	250	201

Professor Gide, who cited these figures, stated that the more modest estimate was nearer the correct truth for France.

It follows that the average national and individual income of the British is about double that of the French.

This fact makes our comparison between British and French banks far more understandable. The overwhelming predominance of the former cannot be explained entirely by the greater degree of banking concentration nor by the more general use of cheques. Let us recapitulate briefly the essential figures, taking into account first the depreciation of the pound at the end of 1932 and secondly the fact that the Banque de France holds a considerable amount of commercial deposits in competition with the other French banks. The figures which we obtain are as on p. 269.

London is obviously superior to Paris in respect to the size of the credits at the disposal of the banks. The discrepancy is even greater in that the figures which we have cited do not take into account the various other types of banking organization which exist in each country. It would, however, be possible to construct a banking system for France which would make greater use of the means which are at its disposal.

[1] Figures cited by Ch. Gide in the *Information*, of July 25th, 1930. 'Le revenu moyen dans divers pays'.

LONDON AND PARIS MONEY MARKETS

December 1932

	£		Francs
Bank of England[1]	33,760,000	Banque de France[2]	15,000,000,000
Midland	419,280,000	Crédit Lyonnais	14,314,000,000
Lloyds	382,140,000	Société Générale	11,739,000,000
Barclays	381,850,000	Comptoir d'Escompte	9,092,000,000
Westminster	298,180,000	Crédit Industriel et Commercial	1,998,000,000
National Provincial	291,820,000	Banque Nat. C.I.	2,621,000,000
	£1,807,030,000		Frs. 54,764,000,000
		That is to say at the exchange of 86 frs. per £	£636,800,000

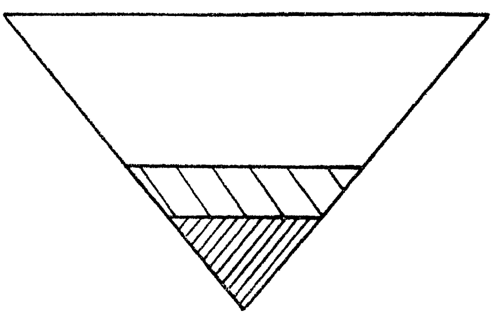
[1] 'Other deposits' (deposits other than those of the Government or the banks.)
[2] This figure is obtained by reducing the deposits by 5 milliards of francs which approximates to the balances of the commercial banks with the Banque de France.

Let us therefore examine for a moment the entirely different credit structures of the two countries:

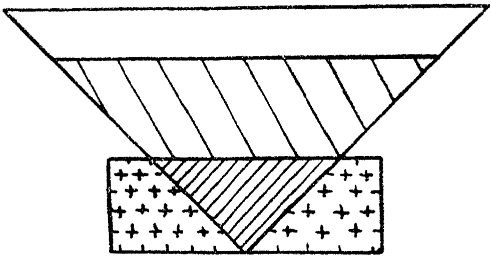
MONETARY AND BANKING STRUCTURE IN GREAT BRITAIN AND IN FRANCE

(March 1935)

Great Britain



France



N.B. The gold of the Bank of England and the French figures have been revalued or converted on the basis of £1 = frs. 75.

In England, on a very small gold base of £192 millions (at par), there exists a small note circulation of £380 millions and a credit structure of £2,600 millions.

In France, on the other hand, there is a large base of precious metal amounting to 82 milliards of francs, supporting a note circulation of 83 milliards (three times the British circulation at a rate of 75 francs to the £). The corresponding credit structure is small at about 70 milliards of francs.

It will be seen from this that the French banking system has many possibilities of expansion.

Professor Ch. Rist has calculated[1] that in October 1934 the credit margin of the Bank of France was 133,3 milliards whilst its discounts amounted only to 4,2 milliards and its advances against securities and ingots to 4,6 milliards. Assuming that the excessive gold cover, resulting from extraordinary circumstances were to be reduced by half, there would still remain a margin of credit of 67 milliards, that is to say about eight times the credits actually granted by the bank.

Credit, nevertheless, does not expand spontaneously:

[1] *Rassegna trimestriale della Banca Commerciale Italiana*, July-December number, 1934.

there must be a demand in existence. This is really the point, for it does not seem possible that there will ever be on the Paris market a demand for credit anything like that which exists in London. The demand in London comes very largely from the fact that London is the financial centre of the Empire, and is, in addition, one of the biggest ports of the world and the natural market for innumerable products.

In one of its publications the Port of London Authority lists the advantages London offers for trade on a large scale:

'London is the greatest market in the world. It attracts purchasers from all over the world thus assuring sellers of the best prices obtainable.

'London has the greatest and the most expert selling and transport organization in the world.

'London can warehouse a million bales of wool and can exhibit for sale 60,000 bales at one time.

'The London meat market is the largest in the world. The cold storage warehouses can store more than $3\frac{1}{2}$ millions carcasses of mutton.

'London serves within a radius of ten miles, a population of eight millions, and within a radius of one hundred miles a population of 16 millions. London's distributing facilities are unique. All the main railway lines and main road services radiate from London and all the principal continental lines converge on London.

'London possesses the most important shipping services to India, Australia, New Zealand and the Orient. London has daily services to the ports and the continent of Europe.

'Most of the docks of the Authority are equipped with railway facilities. Goods are loaded and unloaded from the trucks alongside the ship thus reducing to a minimum the handling charges and freight.'

London is therefore one of the greatest *entrepôt* centres in the world. Close at hand, in the City, the finance is provided for all merchandise which enters the port, including that intended for re-export — the re-export trade being considerable. Furthermore the British bankers are sufficiently accustomed to the business and their market possesses such advantages that they are able to continue to finance the movements of goods even after these goods have ceased to be warehoused in the port of London. There are, indeed, certain types of goods which no longer pass through London, as the development of direct maritime communications has not only rendered such a detour unnecessary, but in addition extra port dues are saved. The passage of such goods is, however, frequently still financed from London. The international importance of the various markets held in London is alone sufficient to explain the supremacy of the City.

The object of the book is this money market itself.[1] Other markets also exist in London; markets whose primary wares are not actual goods and merchandise, but services and securities. Such markets are the stock exchange and the insurance and freight markets.

The industrial development of Great Britain, the importance of British capital invested overseas, and the natural riches of the British Empire, all give some indication of the importance of the part played by the stock exchange. There are no precise statistics available as to the size or number of the operations carried out, but it is sufficient to say that 2,750 jobbers and brokers[2] live on the brokerages obtained on these operations.

Similarly the world wide reputation of the British

[1] Most of the remarks cited in this book with regard to the markets in raw materials are taken from *Markets of London*, by Cuthbert Maughan.

[2] 332 firms of jobbers representing 1181 members and 429 firms of stock-brokers representing 1571 members.

insurance companies is known to all, and the prestige of the corporation of Lloyd's is universal. There can be no doubt that the British are the first in the world in the matter of insurance, more especially in regard to marine insurance, either of ships or of cargoes. We are not surprised to learn that England still possesses about a third of the world shipping tonnage, with more than twenty million tons out of a world total of sixty-eight million tons.

It is, therefore, natural that the freight market which is situated in the *Baltic Exchange* should be the greatest in the world.

The grain market which is closely allied to that of freight, is in the same building as is also another great international market, that for oil seeds, as, for example, the Manchurian soya bean, and the coco-nut and ground nut. Operations which are concerned with the import of produce into Great Britain or with re-exports, form only a part of the transactions carried out in the Baltic. Deals are closed in London in respect of exports from all countries to all parts of the world. Many of these transactions are financed in London and the existence of an active market guarantees the best conditions both to the purchasers and to the sellers.

The fact that South Africa is the world's greatest producer of gold, explains why London is the world market for that metal. It is, however, also the world market for silver, and this in spite of the fact that the Empire only produçes a very small part of the world's production. The position is the same for platinum.

In iron and steel, London is by far the most important market in existence. Here again the market is in three sections: the home market, imports and exports to and from the United Kingdom, and lastly international opera-

tions, in which the British only appear as intermediaries: brokers and bankers.

London is the first market in the world for most non-ferrous metals (tin, zinc and lead), 95 per cent of the diamonds produced in the world are negotiated in London, and there is no greater market for pearls.

Furthermore it is natural that London as the metropolis of the Empire should occupy the first place as the market for most of the exotic products of the world such as rubber, ivory, tea, jute, soya, spices, shellac, etc., as well as for wool and sheepskins.

It is also the main European market for luxury furs, as well as for such commodities as rabbit skins, copra, and oriental carpets.

This list is far from being complete but it will suffice to show that the development of banking in London rests upon a commercial basis the like of which Paris will never know.

It must, therefore, be recognized that London possesses great advantages over Paris for the building up of a credit market. Whilst the elasticity of the French monetary system would enable Paris to create enormous supplies of credit, the demand remains very scarce. London on a much narrower basis has been able to build up a large credit structure, thanks to the perfection of its technique. It has thus been in a position to satisfy the great and varied demands for credit, which, for reasons of a permanent character, have been made in London and which according to all probabilities will continue to be made in London for a long time to come.

If, however, London has no need to look upon Paris as a rival, yet there would appear to be no reason why Paris could not succeed in organizing a money market which although of lesser importance, could yet be as complete and flexible as the London market.

We must now try to explain why this has not in fact been done.

We shall consider successively the actual reserves at the disposal of the Paris money market and the short term investments in bills or bonds which the banks can make. We shall, afterwards, examine the technical organization of the market. This research work will enable us to point out the causes of that narrowness and lack of suppleness which at the moment are characteristic of it.

RESOURCES OF THE PARIS MONEY MARKET

At the beginning of this chapter we have given indications as to the enormous theoretical possibilities for credit expansions which are at the disposal of the Banque of France.

In point of fact, however, the funds with which the money market is actually concerned are limited to the following categories:

(*a*) Cash in hand and at the central bank;
(*b*) the funds invested in bills.

These funds were as follows at the end of 1933.[1]
(in millions)

	Cash and at Banks	*Bill Portfolio*
4 big deposit banks ..	6,350	19,700
21 other banks	3,490	11,130
	frs. 9,840	frs. 30,830
(Or at the exchange rate of Frs. 75)	£130	£400

[1] Figures taken from the study of Professor Ch. Rist, previously quoted.

One of the first results of the French banking organization is that in the absence of discount houses, the banks have to leave in cash or with the Banque de France, without interest, the whole of their liquid funds.

This means a very heavy charge, because, whilst in pre-war days the French banks kept a ratio of cash deposits of only 10 per cent, they have deemed it necessary for the last eleven years to maintain that ratio at an average of 19 per cent (34 per cent in 1931 and 20 per cent in 1933).

Having ascertained the amount of reserves available in the Paris money market, let us consider the bills in the portfolios of the banks.

BILLS AVAILABLE IN FRANCE

In order to organize a real market, it is necessary to have some standard merchandise upon the value of which everybody is in agreement.

The London money market possesses such merchandise in the shape of the Treasury bill and the bank acceptance, both of which are negotiable at all times in practically limitless quantities, and at a uniform rate which is universally recognized. The reason for this is that they can both be rediscounted with the central bank. Nothing similar exists in Paris although the Bons de la Défense Nationale (which are actually two years bills) provide the market with an abundant supply of bills of a stable type.

The fear of sudden difficulties in the financing of the Floating Debt has prevented the French Treasury from issuing three months' bills regularly. The gradual spreading of maturities has however enabled the Bons de la Défense Nationale to play a similar role from the money market point of view. These two years bills whose total amounted to frs. 28,000 millions at the end of 1933 mature at the rate of about frs. 1,000 millions per month. This means that there are in existence about frs. 3,500 millions B.D.N.,[1] with

[1] This is equivalent to £46 6 million (at the rate of 75 frs. per £) or about one single week's maturities of British Treasury Bills.

no more than three months to run, which could ultimately be brought for rediscounting to the Bank of France.

This maturity, however, is not essential in order to give to the B.D.N. the character of a highly liquid investment for the B.D.N. can always provide means to secure a loan through the *pension* system which we shall examine presently. Furthermore, since March 1935 temporary advances can be secured from the Bank of France against all Treasury bonds having less than two years to run.

Paris has thus, in the B.D.N., an equivalent to a certain extent, of the London Treasury bill.

What about bank bills?

Here we find a striking contrast. The ideas of French bankers and traders are both equally hostile to the bank acceptances and the system has not developed to any substantial extent. We have seen that in London, bank acceptances outstanding at one time reached nearly £400 millions and still amount to about £150 millions. It is known that a few years ago certain acceptance houses had bills outstanding bearing their signatures to the extent of £15 millions, whilst £5 to £10 millions was a current figure for the main acceptance houses, and £10 millions each for the big commercial banks. In France on the other hand we find the figures as shown overleaf.

We see from this that the figures for the acceptances of the principal French banks totalled about two and a half billions of francs (or about £20 millions at par) at the end of 1930.

This was after a determinate attempt had been made to develop the Paris market and to popularize the acceptance credit both for home and foreign trade. Since then, there has been a considerable drop in the total of acceptances, which probably do not exceed frs. 500 millions now.

December 31st, 1930
in thousands of francs

	Capital	*Reserves*	*Total own Resources*	*Accept-ances*
Crédit Lyonnais	408,000	800,000	1,208,000	386.272
Société Générale	625,000	380,000	1,005,000	298,783
Comptoir d'Escompte	400,000	415,520	815,520	216,313
Banque Nationale de Crédit	318,750	175,865	494,615	207,549
Crédit Commercial	210,000	182,000	392,000	113,301
Crédit Industriel	100,000	70,000	170,000	19,803
Banque de Paris et des Pays-Bas	300,000	273,451	573,451	258,169
Banque de l'Union Parisienne	200,000	127,780	327,780	192,739
Banque Nationale Française du Commerce extérieur	75,000	25,000	100,000	261,000
Banque Française d'acceptation	100,000		100,000	565,000
Total	2,736,750	2,449,616	5,186,366	2,518,929

It would, of course, be easy to reply that the British banks had no reason to be particularly proud of their mass of acceptance credits when the period of the crisis arrived. Such an answer, would however, be too easy a one, as the small amount of acceptance credits on the Paris market in 1930 were not due to the exercise of any particular measures of prudence on the part of the French banks, but to an entirely different market organization.

In England, acceptors are numerous and are practically all first class. Bills bearing the acceptance of a big bank or of an acceptance house are practically always put into the market where they are freely dealt in at a common and single rate which is lower than the discount rate of the central bank. This rate is quoted for all first class paper which circulates through the intermediary of the discount houses with their guarantee.

In France, on the contrary, by far the greater majority of business is financed by what in England would be termed trade bills which are discounted direct by the Banque de France and by the big banks for their clients.

In France the big banks who do more than half the acceptance business do not usually permit bills bearing their acceptance to circulate. The other acceptors — 'Haute banque', 'Banque d'affaires' or commercial banks, have not the resources necessary to do the same. They are forced therefore to put their acceptances on the market, but they are practically the only ones who do so.

With regard to the trade bills, the bulk remain in the portfolios of the bank which originally discounted them, and they provide very little business for the market.

To sum up we can say that the bills offered for discount in Paris are:

1. First and foremost the Bons de la Défense Nationale.
2. Three months Bons du Trésor when such bonds are issued, from time to time.
3. A very small amount of bank acceptances.
4. An equally small amount of trade bills in respect of imports and exports.
5. Certain finance bills and promissory notes issued by big financial organizations, such as the railway companies and various boards. The development of this last category being due to the impossibility for the last few years of placing debentures issues.

At this stage of our study it is interesting to give some figures relating to bill holdings.

The following figures refer to December 1933, they were not, however, substantially altered at the end of 1934.

The total of B.D.N. then outstanding was frs. 26,500 millions out of which the *Caisse des dépôts et consignations*[1]

[1] A national institution created a century ago and entrusted with the management of funds accumulated by national savings banks, social insurance, etc.

held frs. 6,000 millions, thus leaving frs. 20,500 millions (about £270 millions) for the banks and for the finance departments of important industrial or commercial concerns.

At the same date the bill portfolio of the Banque de France amounted to frs. 4,200 millions, and those of the other banks (see page 275) to frs. 30,800 millions, making a total figure of frs. 35,000 millions (£466 millions).[1]

Whilst the Banque de France can be assumed to hold only trade bills, the other banks must hold the major part of the B.D.N. which are not held by the Caisse des Dépôts et consignations. This would result in these banks holding from frs. 15,000 to frs. 18,000 millions of B.D.N. and frs. 13,000 to frs. 15,000 millions trade bills, acceptances or promissory notes.

THE WORKING OF THE PARIS DISCOUNT AND MONEY MARKET

It must be realized that in Paris all operations are done between banks (either directly or through running brokers). They may, for example, arrange from time to time an exchange of parcels of their own bills between themselves. This procedure however does not alter their liquid position.

The elasticity of a money market depends ultimately on the possibility of obtaining discount facilities or an advance from the central bank.

It is an absolute rule in France for the central bank not to intervene on the market by open market operations. Theoretically the commercial banks should apply to the Bank of France for rediscount when money becomes tight; and this was what happened in pre-war days.

Since the end of the war, however, the Banque de France has increased the number of its branches and thereby its

[1] At the rate of £1 = 75 frs.

competition with the commercial banks. These in turn have been showing an increasing reluctance to resort to the central institution either because they resented a competition which they consider unfair, or even because they are genuinely afraid to disclose their operations and the name of their customers to a competitive institution.

An improvement in this state of affairs might have been brought about had the Banque de France been willing to rediscount freely such B.D.N. as had less than three months to run. This however was not the case,[1] the Banque de France being afraid to encourage the Government to increase the Floating Debt and insisting therefore, that, whenever a bank wants assistance, its commercial portfolio should first be rediscounted.

This explains the reason why in recent years a deadlock has so frequently arisen in the Paris money market whenever the short funds available have been reduced (as a result of: loss of gold by the Banque de France, depositors' run on commercial banks, or temporary transfers of short funds abroad to take advantage of favourable currency swaps).

Considerable relief has however been given to the market by the substantial development of *pensions*.

In its present state the French legislation make it very complicated for a lender against collateral to realize the security in case of the debt not being honoured. It is therefore impossible to put into application the system of loans against parcels of bills as practised in London.

In its place the French have devised the *pension* system whereby bills are bought spot by the lender and sold forward to the borrower at a price which includes the rate of interest on the loan. Such operations cannot very well be made the basis for day to day loans but are very exten-

[1] Until February 1935.

sively used for fixed periods of one to three months or at two days' notice on either side.

The Caisse des dépôts et consignations, which has considerable resources (frs. 100,000 millions) and is in point of fact the largest bank in the world, is a consistent lender of large sums against pensions of B.D.N. and has thus provided the Paris market with a much needed safety valve.

Day to day loans are made between banks, the somewhat theoretic security consisting in an exchange of bank transfers on the Banque de France.

EFFORTS MADE TO IMPROVE THE PARIS MONEY MARKET

The *pension* system was evolved by the French banks and developed with the co-operation of the Caisse des dépôts et consignations to compensate for the failure of the classical system of rediscount by the Banque de France.

Having practically lost control of the market, this institution has made various efforts to regain it. Discount facilities have been increased, a system of seven days' advances against bank bills, similar to those granted by the Bank of England to the bill-brokers, has been instituted. More recently, in February, 1935, a system of advances against Treasury bonds or bills having less than two years to run has been evolved. Furthermore, the Banque de France assisted a few years ago in the formation of the first French bank specializing in acceptances and quite lately it seems to have viewed with favour an attempt to create a discount house. These efforts have, so far, been somewhat ineffectual. Unfortunately many reasons conspire to render the task of creating an efficient money and discount market in Paris very difficult.

SPECIAL DIFFICULTIES OF THE PARIS MARKET

A primary reason is the unsatisfactory management of the French public finance. The recurrent and disastrous budget deficits, as well as past experiences in 1925 and 1926 render the bankers – and more especially the Conseil de Régence (Court) of the Banque de France very suspicious of the Floating Debt. Since 1926 the B.D.N. have enjoyed a constitutional status which is due to Poincaré. This status ensures the gradual reduction of their total amount through a 'Caisse Autonome de Amortissement' endowed with special resources such as the proceeds of the tobacco monopoly. Nothing similar exists for the Bons du Trésor and this is the reason why the Banque de France has been so reluctant to accept them for security against short advances.

Another very important reason is the obvious lack of co-operation between the Banque de France and the big *établissements de crédit* . . . and this raises the whole question of the status of the Central Bank, a matter that cannot be discussed here.

There are also some technical obstacles which, unlike those already mentioned, could easily be removed. Certain legal and fiscal hindrances to the development of the Paris money market could readily be eliminated. It has been demonstrated[1] that there are no insuperable obstacles in the way.

Let us see now to what extent Paris could learn from the practices of the London money market.

LONDON'S EXAMPLE

For many years the importance of specialized acceptance houses was emphasized in France as the reason for the

[1] B.P. Vigreux, *Le crédit par acceptation*, Paris, 1932, pp. 321-27.

superiority of the London market. This partly erroneous conception led in 1930 to the formation of the Banque Française d'Acceptation. It was, however, a mistake to make an attempt to increase French acceptances before having taken the necessary steps to guarantee the easy negotiation of these acceptances. Similarly, it would be another mistake to introduce *ex abrupto* in Paris the British system of weekly tenders for three months' Treasury bills. A successful institution which has evolved in the conditions obtained in the country of its origin may well fail in another where conditions are different.

The essential step for the improvement of the Paris market should be the creation of an organization similar to the London discount houses.[1]

Such an organism would obviate a lack of co-operation between the Banque de France and the French banks, and it would enable the banks to earn a reasonable interest on the funds which they now keep idle with the Banque de France. These funds (about frs. 5,000 millions) would form the basis of a money market where the Treasury, the accepting banker, the commercial world could find increased discount facilities.

These discounting institutions would act as shock absorbers in the event of a run on a bank. In such a case the bank would call in its short loans, but the discount house would in most cases be able to re-obtain that money from the other banks to which the depositors of the first bank had transferred their funds. In case of a more general tightness of monetary conditions, these institutions would not have the same reluctance as the *établissements de crédit*, to resort to the central institution, and the market deadlock would be avoided.

[1] A very interesting development is the increase in the capital of the 'Société Parisienne de réescompte' in 1935 as a prelude to increased activities in the money market.

Provided these institutions had developed sufficiently the introduction into France of the Treasury bills tender might even become possible. This would obviate the risk of the big banks and the Treasury forcing the discount rate to extremes.

It would mean, too, a substantial improvement on the present conditions for the negotiations of bills. Buyer or seller in the Paris discount market work at the moment through the intermediary of running brokers, who undertake no responsibility and give no guarantee whatsoever. To negotiate a bank acceptance or a trade bill one must in the first place find a taker. In London on the contrary there is not only always a taker, but one who will come to you and solicit your orders: the bill-broker.

When the Paris market has acquired this organization, there might then be room for an acceptance house—preferably an independent one.

The *Banque française d'acceptation* was formed under the auspices of the Banque de France by the big *établissements de crédit* and *banques d'affaires*. Prior to its formation these various banks had already themselves granted acceptances, and have still continued to do so. In these conditions one fails to understand the idea behind this scheme, unless it was that the big banks felt at one time that a gesture had to be made in favour of the development of French acceptances, without at the same time themselves incurring the risk of such new operations. If they wish to continue to carry out this type of business, they are not likely to miss an opportunity of increasing their own acceptance credits by handing the business to another institution. If, on the other hand, they wish to specialize, they should cease entirely the practice of granting acceptance credit themselves and should leave that function to the *Banque française d'acceptation* or other similar institutions.

CHAPTER V

THE BRITISH BANKS THROUGH THE CRISIS

FOREIGN observers have been very much impressed by the strength which has been shown by the British banking system during the course of the financial and economic crisis which has just lately swept the world.

Quite apart from the collapse of the banks in Germany and in other Central European countries, we have seen numerous bank failures in the United States, many of them institutions of some importance. The banking position necessitated an internal reconstruction in Italy, and caused a currency depreciation in Belgium. France, too, although less affected by the crisis than other countries, has nevertheless had some serious banking failures.

In Great Britain the economic crisis has been extremely acute and the heavy liabilities assumed by the City in Central Europe, and in other countries affected by moratoria, increased considerably the risk of bank failures. In spite of this, no bank in the City has suspended payments, and the abandonment of the gold standard, which brought about a 40 per cent depreciation in the pound, has not affected the position of the big British banks at all. It has, indeed, helped them to realize many of their foreign losses without having to make corresponding amortizations.

The world crisis, particularly in its repercussions on the British economic system, has produced a further proof of the soundness of the City of London, and has brought to light the few weak points in its organization.

Let us, therefore, study how the City has been threatened, and in what manner it has succeeded in surmounting the greatest dangers and in triumphing over its difficulties. This remarkable achievement has been due in the first place to its technical organization and to its spirit of co-operation, and secondly, in a very large measure, to the depreciation of the pound and to the return to orthodoxy in matters of public finance.

In order to understand the international 'position' of the City of London on the eve of the crisis it is necessary to summarize the figures for the British balance of payments as given in the official statistics.

The balance of trade — the difference between exports and imports — shows, as is the case with France also, a large deficit. The deficit would appear (prior to the introduction of the protectionist policy) to have been normally between £350-£380 millions per annum. Great Britain has been able, however, to counterbalance this by various forms of income which are generally grouped together under the heading of 'invisible exports'. Of these, three-fifths consist of interest on British investments overseas, the balance being provided by the return on the services (shipping, insurance, and banking) which Great Britain undertakes for other nations. These items used to be sufficiently large to leave, on balance, a disposable surplus each year. The figures are set out in the following table (in millions of pounds):

BALANCE OF PAYMENTS

Board of Trade Journal

£ millions

Board of Trade Estimates: Net

	1913	*1924*	*1925*	*1926*	*1927*	*1928*	*1929*	*1930*	*1931*	*1932*	*1933*	*1934*
Merchandise Trade[1]	–134	–338	–392	–463	–387	–352	–381	–386	–408	–287	–263	–295
Governmt. Transactions[2]		– 25	– 11	+ 4	+ 1	+ 15	+ 24	+ 19	+ 14	– 24	—	+ 9
Shipping Income		+140	+124	+120	+140	+130	+130	+105	+ 80	+ 70	+ 65	+ 70
Overseas Investment income		+220	+250	+250	+250	+250	+250	+220	+170	+150	+160	+175
Short Interest and Commissions		+ 60	+ 60	+ 60	+ 63	+ 65	+ 65	+ 55	+ 30	+ 25	+ 30	+ 30
Other Sources		+ 15	+ 15	+ 15	+ 15	+ 15	+ 15	+ 15	+ 10	+ 15	+ 10	+ 10
	+340	+410	+438	+449	+469	+475	+484	+414	+304	+236	+265	+294
Balance of Current items	*+206*	*+ 72*	*+ 46*	*– 14*	*+ 82*	*+123*	*+103*	*+ 28*	*–104*	*– 51*	*+ 2*	*– 1*

[1] Including Silver. [2] Including items on Capital Account.

The national balance of payments became, as we can see, heavily in debit for the first time in 1931. According to the Board of Trade this debit amounted to £104 millions. According to Mr. J. M. Keynes and the *Economist*,[1] it was between £80 and £100 millions only. Since 1933 the balance of payments has reached a position of equilibrium, the fall in imports and in their cost having counterbalanced the drastic reduction of revenue from foreign investments, shipping and from interests and commissions.

Apart, however, from the balance of payment on revenue account, we have to take into account capital movements (foreign loans received or repaid, sales of securities between British nationals or foreigners, gold movements, rises or falls in the total of those foreign deposits which are in search either of a high rate of interest, or of an opportunity for monetary appreciation or of a refuge). Some only of these monetary factors can be estimated. There are, in particular, statistics available for the foreign loans placed in London. The following table shows how this factor has affected the balance of payments of Great Britain:

[1] *Agence Economique*, April 1st, 1932, and *Economist*, April 16th, 1932.

BANK OF ENGLAND AND BOARD OF TRADE ESTIMATES

	1913	1920	1924	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934
Balance of payments on revenue account	+206	+239	+ 72	+ 46	− 14	+ 82	+123	+103	+ 28	−104	− 51	+ 2	− 1
Foreign issues in London	−198	− 59	−135	− 88	−122	−151	−150	−107	−113	− 50	− 29	− 38	− 42
Balance	+ 8	+180	− 63	− 42	−136	− 69	− 27	− 4	− 85	−154	− 80	− 36	− 43

It must be remembered that foreign deposits in London, however large from time to time they may be, cannot be used to make long term loans. Furthermore, the repayments of loans made to foreigners are usually of no great size and exports of gold cannot be continually used as a means of adjusting the balance of payments. It is obvious from these facts that the figures for the amount of foreign issues made in London each year are of very great importance.

It would plainly appear from the above table that since 1924 Great Britain has (with the exception of 1929) been continually lending in excess of her own resources. This was done in order to maintain the prestige of the City, and it was made possible by the fact that, according to Mr. J. M. Keynes,[1] the Bank of England was too proud to admit that it had been defeated (by the stabilization in 1925 at an untenable level) and was in consequence not sufficiently far-sighted or resolute to prevent over-investment.

The City was allowed to continue making loans on the old scale, and the difference was financed by borrowing more and more on short term. The Macmillan Committee discovered that in March 1931 these short term loans which the City had contracted from abroad, totalled £450 millions (deposits in London, bills purchased by foreigners, etc. etc.). According to Mr. Keynes the actual

[1] *Agence Economique*, article cited.

amount was even greater and might, in June 1931, have been between £600 and £800 millions.

These short term loans gave the appearance of restoring the equilibrium, and enabled the value of the pound to remain steady. It was, however, an essentially unstable form of equilibrium, and the accumulation in London of foreign money on short term made the position both of the banks and of the pound a somewhat precarious one.

In 1931 the balance of payments was an unfavourable one, and from the spring onwards the pound was subjected to a continuous pressure which drove its rate of exchange down to the gold point. Foreigners began to be alarmed and commenced reducing their London balances. On top of this the German financial crisis with its suspension of payments burst upon the City in July. London's engagements in Germany were heavy. According to the Bâle Committee's report they totalled £45 millions of acceptances and £15 millions of advances and other credits. To this figure must be added the value of the German securities owned by the British banks.

The situation became serious. The British banks suddenly found themselves faced with the fact that they might have to honour the engagement which they had entered into when they had accepted German bills. They were, in fact, faced with the problem of either paying or of renewing them at maturity. The contingent liability became a very real one. It was, indeed, a very heavy addition to the burdens of the acceptance houses, and in the event of some of them not being able to honour their signatures, what then, would happen to the discount houses who had discounted these bills and had sold them with their endorsement or guarantee?

Germany was, however, not the only defaulter. The collapse of world prices and the paralysis which had

affected international exchanges, had made the burden of the debtor nations very heavy. In Central Europe and in South America — precisely these parts of the world in which the British bankers were most engaged — general moratoria succeeded individual defaults. Each piece of bad news which arrived accentuated still more the menace which weighed on the acceptance and discount houses, and in a lesser degree on the deposit banks as well. On the one hand liabilities were increased by the falling in of the acceptances, whilst on the other hand assets tended to become frozen or to contract. Some of the bills discounted were irrecoverable, advances were transformed into lock-ups, and finally portfolios of foreign bonds began to shrink in value and even gilt edged commenced to fall.

The National finances were in no better shape than those of the bankers. A large increase in unemployment had caused a drain on a budget whose receipts had already been reduced by the economic crisis. The Labour party, who were in power, postponed taking the necessary action. The alarm of foreign capitalists is therefore understandable. As we have already seen, the funds placed on the London market on short term reached a total of about £600 millions, whilst the funds which could be realized rapidly in London to meet these calls did not amount to much more than a third of this sum.

The dismal outlook gave rise to a vast movement for the repatriation of this foreign floating capital. A case of indiscipline which occurred in the British Navy in August was exaggerated in the papers and this still further aggravated public opinion, not only abroad but in England as well. The final result was that the withdrawal of funds degenerated into a flight from the pound. Those who had forward sterling to receive, hastened to cover themselves, and speculators, having all to gain and nothing to lose,

sold a bear on sterling. It is just possible that a rigid policy of deflation might still have saved the pound, but on the one hand the political situation became increasingly uncertain, and on the other hand the Bank of England did not do more than raise its discount rate to 4½ per cent.

In order to defend the pound, the Bank of England contracted a loan of £50 millions in August from the Banque de France and from the American Federal Reserve Banks. Later the British Treasury obtained a further £80 millions from France and the United States. Instead, however, of using these funds to meet only spot demands for foreign exchange, the Bank used them up very rapidly in attempting to support the price of forward sterling, which naturally gave a premium to speculation. On September 15th the foreign exchange dealers are said to have bought up to £10 millions of sterling in a single day. On September 21st, the available resources having been used up, Great Britain abandoned the Gold Standard, and sterling at once lost nearly 25 per cent of its nominal value.

What was to happen in London? Continental observers, remembering the recent examples of the franc and the mark, to say nothing of other European currencies, expected that Great Britain would be forced into a vicious circle of inflation. Their reasoning was as follows:—'The reduction in the value of sterling will cause a reduction in its purchasing power both externally and internally. The British will rush to buy commodities to avoid capital loss, and their prices will rise. Shares will rise whilst fixed interest bearing stock and gilt edged will collapse. The banks will be forced to keep a greater amount of liquid funds to meet withdrawals, they will withdraw their funds from the discount market and reduce their portfolios of bills. The weekly tenders of banks and discount houses for Treasury bills will be reduced. This will mean a sudden

reduction of the floating debt of the Government. The latter will have no way of meeting this call other than making the Bank of England take up the surplus Treasury bills. This can only be done by authorizing the Bank to increase its fiduciary issue.

'On the other hand, merchants will accumulate stocks in anticipation of the rise in prices and will be asking the banks for advances, which in its turn will cause added risk of inflation.'

These pessimistic, but apparently well-founded prophecies were made during the autumn of 1931, and, in actual fact, not one single one of them turned out to be correct. It should be once again emphasized that not a single British bank suspended payments. This does not mean that London was not affected by the new development of the crisis, but that a lucky combination of circumstances, added to the natural sang-froid of the British public enabled those in charge of affairs in the City to face the danger, and to take all the measures necessary to prevent a catastrophe.

The starting point of the resistance to the crisis was provided by the completely calm front shown by the British depositor. By national pride, by a community spirit, and, it must be admitted, by a certain laziness of thought, the average Englishman always refused to admit that it was at all possible for the pound sterling to go the way of other continental currencies. Furthermore, he never for a moment doubted the solidarity and solvency of the great banks of the City. This national spirit relieved the big banks of all fear of runs, and contradicted the general idea that a flight from the pound would involve sterling in a vicious circle of rising prices and inflation.

Other factors have enabled the pound to retain its internal purchasing power practically unchanged, whilst even its external purchase power has varied very little.

There was a continual fall in world prices; a number of countries from whom England obtains a large proportion of its imports, such as the Scandinavian countries and the dominions, abandoned the gold standard at the same time as England; the continuance of the economic crisis forced merchants to liquidate their stocks and discouraged them from building up new stocks; the existence of the abnormal margin between wholesale and retail prices allowed this latter to fall further, long after the former had ceased to fall; whilst a final factor was the policy of relative deflation which was followed by the banks who were desirous of obtaining the repayment of part at least of their advances.

Let us now examine the policy followed by the banks during the crisis. In order to see what were the repercussions of the crisis on the different banking groups of the City we shall examine their balance sheets. We shall be able to see by a comparative examination of these balance sheets what policies have been followed. Whilst doing this, we shall retain the sub-divisions adopted in the first part of this work.

THE BANK OF ENGLAND AND MONETARY POLICY

A. *From September 1931 to March 1932. Strict control and deflation*

On September 21st, the date on which Great Britain went off the Gold Standard, the Bank of England raised its discount rate to 6 per cent. There were many who said that this measure could have been more usefully adopted before that date. On the other hand it must be recognized that the Bank of England rigorously maintained this rate during the whole of the critical period of the winter, in spite of the vituperation of many industrialists and of

inflationists of all sorts. The Bank reaffirmed its intention of keeping a strict hand on the whole of the credits markets, and the high rate caused a certain measure of deflation, owing to the fact that it induced debtors who were in a position to do so, to pay off their bankers rather than submit to such an onerous rate of interest.

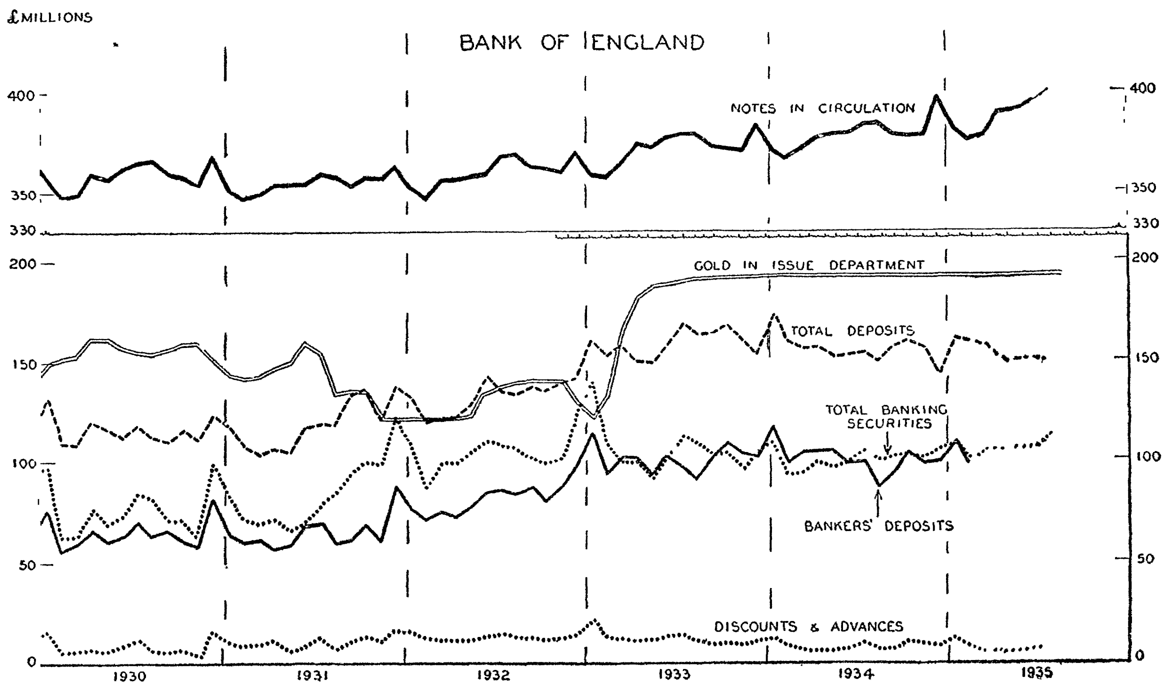
At the same time the limit of the fiduciary issue was strictly maintained. This limit had been raised in August from £260 to £275 millions, but the Bank of England, even after making a partial repayment in gold to the Banque de France and to the American Federal Reserve Banks, was able to surmount the turn of the year without having to ask the Treasury to authorize a further increase in its amount. They were assisted by the big banks who agreed to reduce very considerably the quantity of notes which they had been in the habit of holding in their tills. This amount, which for years had remained round about £105 millions, was reduced to about £90 millions. This meant that the deposit banks kept a little less cash but a little more with the Bank of England, whose reserve was thereby increased.[1]

These operations neutralized the reduction in the circulation caused by the exports of gold in October 1931, to repay foreign credits, and kept the circulation at a fairly constant level up to 1933.

This can easily be seen from the graph on p. 296, taken from the Bank of England statistical bulletin (March 1935).

Up to February 1932 the discount rate of the Bank of England remained at 6 per cent and the deposits in the banks fell continually. It would appear that the British monetary policy during this period was to avoid all risk of inflation and to maintain the interior purchasing power of the pound. At the same time Great Britain initiated a

[1] See pp. 206, 207.


£MILLIONS
BANK OF ENGLAND
NOTES IN CIRCULATION
GOLD IN ISSUE DEPARTMENT
TOTAL DEPOSITS
TOTAL BANKING SECURITIES
BANKERS' DEPOSITS
DISCOUNTS & ADVANCES
400
350
330
200
150
100
50
0
1930
1931
1932
1933
1934
1935

drastic protectionist and imperial preference policy which was designed to reduce imports in order to improve the trade balance and thereby the balance of payments.

B. *From March to September 1932. Reflation and easy money*

World opinion with regard to the pound sterling became increasingly optimistic after the commencement of 1932. The resolution and calmness with which the first months after the abandonment of the gold standard had been met, was impressive. A national government succeeded to power, backed by an overwhelming majority, both of the people and in parliament. The budget was finally balanced. All these factors gave increased confidence in the pound, and people began to wonder if a depreciation of 33 per cent in the value of the pound was not excessive. Great Britain began to benefit by a large influx of gold from India, and bear speculators deemed it necessary to cover their position. The depreciation in the pound was brought back to 25 per cent of parity. At this level, measures were officially taken to prevent a further rise, by the opening of a fund of £150 millions for the purpose of reducing exchange fluctuations — *the Exchange Equalization account.*

Simultaneously monetary policy became less severe, and a series of reductions between February and June brought the bank rate down to 2 per cent. The object of this policy of easy money was to tempt prices to rise, and business to recommence, as well as to sustain the price of gilt edged in view of impending conversion operations.

The table on the next page brings out the contrast between the strict monetary control between September 1931 and February 1932, and the period which followed, a period in which the war loan conversion scheme was being prepared for and carried out.

	Sept 1931	Feb 1932	Sept 1932	Sept 1933	Sept 1934	Sept. 1935
Notes in Circulation	354 1	346 4	361 6	372 2	378 4	399·5
Public Deposits	20 9	15 2	17 0	17 1	26 1	14·7
Bankers' Deposits	60 2	70 7	86 1	102 5	93 5	92 6
Other Deposits	51 3	32 4	33 2	44 1	37 0	38 3
Total of these liabilities	486 5	464 7	497 9	535 9	535 0	545 1
Government Debt and other Government Securities	312 8	295 7	330 6	334 6	339 4	341 1
Discount and Advances	10 4	12 5	12 1	9 3	6 6	12 7
Other Securities	41 2	48 4	28 4	12 7	11 7	12 9
Gold Coin and Bullion	134 9	120 8	139·3	190 5	191 8	193·5
Reserve of Notes	57 1	50	53 6	79 5	74 0	54 7
Ratio	43%	42%	39 5%	48·5%	47·3%	37 5%

From February to September 1932, the 19 millions of gold which were received were used to bring about an increase of £4 millions in the reserve of notes and of £15 in the circulation. Simultaneously the Bank of England increased its holding of Government and other securities by £15 millions thus causing a parallel increase in bankers' deposits.

This increase in the deposits of the banks with the Bank of England had its usual effect upon the total deposits of the banks, the deposits of the ten clearing banks rising by £200 millions between February and September.

The abundance of money led to a rise in the price of gilt edged and a falling off in the rate for commercial bills and Treasury bills. During the course of the summer of 1932, the British Treasury was not only able to renew the whole of the floating debt at rates round about ½ per cent but was able to increase the amount of that debt by about £150 millions in order to constitute the Foreign Exchange Equalization account.[1]

In June the Treasury was able to launch under very favourable conditions — especially considering the abandonment of the gold standard — a gigantic scheme which enabled it to convert in three months more than two

[1] Total of floating debt, £700 millions in September 1931 and £850 millions in September 1932.

thousand millions of pounds of 5 per cent War Loan, into the new $3\frac{1}{2}$ per cent stock. The success of this unprecedented operation was even greater than was expected, and demands for cash repayments were received in respect only of £165 millions or about 8 per cent of the total. It must be explained that the success of the Chancellor of the Exchequer was due not only to the perfect knowledge of market conditions which had been obtained by the experts who had prepared the scheme, but also to the patriotism shown by the British people and in particular to the example which was given by the whole of the City.

The conversion scheme paved the way for a further return of confidence and its consequences on future rates for loans were to be considerable both in England and abroad.

c. *From September 1932. Consolidation*

At the beginning of 1933 with the success of the War Loan Conversion assured, and with large stocks of gold in the Foreign Exchange Equalization account, England could have returned to the Gold Standard and have re-established conditions of stability in the world, thus materially assisting in the solution of the crisis.

The pound was at that time at a level which gave the British exporter an advantage against all its competitors, including the American. It seemed, too, to be approximately at an equilibrium rate in relation to prices in the countries of the gold bloc (France, Belgium, Holland, Switzerland and Italy).

It was, at that moment, within the power of the British authorities to have arrested the trend of world deflation, and to have prevented the start of a race for currency depreciation.

By failing to do so, they induced President Roosevelt to seek in a devaluation of the dollar, a solution to American problems. It would appear that even after America had left the gold standard, it might have been possible to stabilize. All observers of America seem to agree that in the spring of 1933 Roosevelt was ready to depreciate the dollar by only 15 per cent and to come back to the gold standard provided that England had been prepared to stabilize the pound.

Technically the return to the gold standard was perfectly feasible and the Bank of England seemed to have been in favour of it.

Great Britain's choice, however, was to increase by £200 millions the Foreign Exchange Equalization Account in order to carry on a policy of managed currency and cheap money; managed currency in order to maintain as long as possible the benefit of the depreciation of the pound in foreign markets, and cheap money with the object of helping trade and industry at home, and, if necessary, of encouraging moderate rise in prices in harmony with the American policy of raising dollar prices.

The Protectionist policy reduced imports. Trade treaties and currency depreciation made it possible to maintain, and in some cases to increase exports. The deficit on the trade balance was thus substantially reduced whilst there was a tendency from 1933 onwards for invisible exports to reach a higher figure. Equilibrium was thus attained in the balance of payments.

We have seen, however, that the practice of making foreign loans was restarted with the result that this fresh export of capital caused a constant pressure on the pound, the tendency for the pound to fall being only relieved, from time to time, by flights from other currencies. The increasing pressure due to the depreciation of the pound

threw an unbearable burden on the countries of the gold bloc, forcing upon them a drastic deflation, if not a devaluation.

In the meantime things in England appeared fairly satisfactory. Sheltered by protection employment figures went up, although the total of unemployed people remained above two millions. We shall see, when examining the figures of the clearing banks that the efforts to push the recovery further by means of cheap credit, did not succeed for a long time.

We must now turn once more to the Bank of England balance sheet to consider what was the policy pursued during the period under review.

The Bank of England in 1933

Early in 1933 the pound was once more in great demand and it was then that the Foreign Exchange Equalization account had to be increased to prevent its rising in value. The 'control' sold pounds against francs and these francs were either exchanged for gold or converted into dollars and exchanged for gold. The gold thus acquired by the Treasury was partly resold to the Bank of England which purchased it at the statutory price. The Treasury thus made a loss which will probably be written off against the profits made by the Bank when the gold stocks are eventually revalued at a new parity. The Bank also acquired some gold direct in the market.

In spite of gold payments made to the United States at the end of 1932, the net receipts of gold amounted to £50 millions between September 1932 and September 1933. These receipts caused considerable alteration in the Bank statement of accounts.

The Bank did not, however, permit all this gold to form the basis for an inflation of credit. A part of it was neutral-

ized and the Bank of England's position was remarkably strengthened.

In the first place the Bank did not seek in June for the renewal of the Treasury's authorization for the increase in the fiduciary issue. This was therefore reduced from £275 millions to £260 millions. On account of this fact only £37 millions of new notes were issued against the gold receipts. Of these £37 millions, only about £10 millions passed into the circulation which rose from £361 to £371, and £26 millions went to reinforce the Reserve into the Banking Department. The Reserve was thus raised to the high figure of £80 millions. The ratio too was substantially increased as, during the same period, assets other than gold were reduced on balance by a net figure of £14·5 millions.

This shows that the Bank did not attempt to pursue a deliberate policy of credit inflation. In point of fact the bankers' deposits which had been increased by £15 millions during the period February-September 1932, when the Bank had received £18 millions, were left practically unaltered during the great inflow of gold, from September 1932 to September 1933.

It must be remembered that at this time (spring 1933) with a bank rate of 2 per cent, Treasury bills were freely subscribed for at rates between $\frac{3}{8}$ and $\frac{1}{2}$ per cent, whilst the clearing banks' deposits stood at a figure higher than before the crisis. In these circumstances a new expansion of credits could only have occurred out of a determination to raise prices at all costs. It would have been completely impossible to justify it on the grounds of the possible needs of trade, and this, as we shall see later, is borne out by the balance sheets of the deposit banks. Before, however, we pass to the study of these balance sheets, we must close these remarks by some observations on the Bank of England figures in 1934.

The Bank in 1934 and 1935

There is little to be said about the policy of the Central institution in 1934. The gold reserve remained unaltered and other assets were maintained at such a level that the bankers' deposits remained very stable at an average figure of £100·3 millions as against £99·9 millions for 1933. The ratio declined slightly as a result of a moderate expansion in the note circulation. The average circulation in 1934 was £378·8 millions as against £358 millions in 1930, the increase being 5·5 per cent (see page 296) it seems so far moderate and in keeping with a growing population and the revival in home industries. In 1935 a bigger increase in the notes in circulation was only partly offset by a reduction in the deposits and the Bank had to buy gold in order to prevent its ratio from falling too much.

THE BIG DEPOSIT BANKS

The progress of the big British banks since 1931 has brought out very clearly the practical limits which exist to a policy of managed credit. The policy of deflation pursued by the Bank of England up to February 1932 has for effect an immediate contraction of the deposits of the big banks with a parallel reduction in all their assets.

The cheap money policy which followed failed to have the expected results. In accordance with the lead given by the central institution, the clearing banks allowed their deposits to expand as their accounts with the Bank of England rose, but they had to modify very considerably their traditional policy with regard to the employment of these funds and they finally counteracted the expansion of their deposits by allowing their ratio of cash to deposits to increase.

A detailed analysis of this evolution will enable us to make various interesting remarks.

(1) *Cash and at balances with the Bank of England*

If we refer ourselves to the table on page 206, we shall see that the cash item which used to amount to about £103 millions before the crisis, came back to the very similar figure of £100 millions in 1933 and 1934, after a temporary reduction, due to the measure of co-operation with the central institution which we have already studied. On the other hand there has been a steady rise from £65 to £100 millions in 'bankers' deposits'. The Bank of England has thus been responsible for a cash basis of £35 millions being put at the disposal of the clearing banks for credit expansion.

The figures published by the clearing banks tell a different tale and show an increase of only £19 millions from £193 millions in 1929-30 to £212 millions in 1933-34. A part of this is due, as we have seen, to the partial abandonment of window dressing policy; the amount of 'artificial cash' in the clearing banks' figures having dropped from £26 to £12 millions[1]. The basis for fresh credit was therefore used to the extent of approximately £14 millions, to maintain the cash ratio throughout the year, and not merely on balance sheet days. There still remained, however, £20 to £21 millions upon which to base a credit expansion which might have reached £200 millions. In actual fact this was, to a large extent, done in 1932 and 1933 as the average deposits reached £1,953 millions in 1933 a record figure, exceeding by over £150 millions the average for 1929-30. In 1934, however, instead of continuing to expand, bank deposits were substantially reduced.

[1] See Part I, Chapter II, p. 94.

By studying the variations of the other items in the balance sheet, we shall discover the reasons for this unexpected movement, as well as for the subsequent new expansion in 1935.

Money at call and short notice

Owing to the fall in the Treasury bill allotment rate to about ½ per cent, and even lower, a fall which had been caused by the cheap money policy, the bill-brokers were running their books at a loss with money borrowed from the clearing banks at 1 per cent. They were therefore induced to reduce their borrowing from these banks,[1] hence the fall in this item from £121 millions to £102 millions between 1931 and 1933. The fresh rise to £134 millions in 1934 was principally due, according to Mr. McKenna,[2] to an increase in activity on the Stock Exchange. In 1935, however, the money market increased its borrowing from the Clearing Banks as a result of the reduction in their lending rate.

Bills Discounted

The amount first allotted to the Exchange Equalization account was raised by Treasury bills issued to the market. The banks were thus able in 1932 to swell their bills portfolio from £207 millions in February to £408 millions in December. In 1933 the situation was completely altered by the Treasury resuming its policy of reduction of the floating debt, a policy which was to be carried still further in 1934, with the result that in the absence of any appreciable increase in commercial bills, the banks' portfolios were depleted and fell to the low average of £230 millions. In 1935 an increase in the floating debt and a slight improve-

[1] See Part II, Chapter II, pp. 230, 231

[2] Midland Bank, annual meeting, 1935.

ment in home and foreign trade enabled the banks to replenish somewhat their bill portfolios.

Advances

In their speeches to their shareholders, the chairmen of the Big Five repeated in 1935 what had been said in 1931 before the Macmillan committee. They were all agreed that a satisfactory proportion of advances to deposits would be 50 per cent. It is nevertheless with difficulty only that they were able to maintain this ratio between 35 and 40 per cent. 'It is disappointing to find that during a long period of cheap rates the abundant supplies of money have not found their way into trade, but have perforce been driven into investment for want of better employment',[1] said the chairman of Lloyds Bank, whilst the Hon. Rupert Beckett of the Westminster Bank stated that 'The fact that we are underlent comes from lack of demand, for never before were the banks more competitive in their desire to provide accommodation within the appropriate limits of banking facilities'.[2]

How can this fall in advances, both in their ratio to deposits and in their actual total, be reconciled with the improvement witnessed in trade activity since the end of 1932? Mr. McKenna[3] has supplied the following answer: 'The principal explanation of this divergent movement is that business and public undertakings in the mass have been in a position to use their own resources to a much larger extent than before, and have had correspondingly less necessity to borrow from the banks. Many undertakings have been induced by the high level of security prices to dispose of investments and use the proceeds either to finance expanding business without recourse to the banks

[1] Lloyds Bank, annual meeting, January 25th, 1935 (Mr Beaumont Pease).
[2] Westminster Bank, annual meeting, January 30th, 1935
[3] Midland Bank, annual meeting, January 24th, 1935.

or to reduce outstanding loans. Again, money raised by new issues of capital has been used to pay off many millions of bank advances. Thirdly, the progressive integration of industry has tended to reduce the calls made upon the banks for accommodation. It has been no infrequent occurrence for a company with large credit balances to come under joint control with another which is in debt to the bank, and then to finance the whole combination out of its own resources. And finally, some borrowers have thought it advantageous to take up credits or loans from sources outside the banking system. All these factors have operated to permit a large recovery of trade not only without additional advances, but with an actual reduction.'

The reduction of banking advances is therefore not a sign of contraction in trade. It shows nevertheless that industrial and commercial revivals have been limited. In 1934 advances were very stable with a tendency to increase slightly towards the end of the year. It is not quite certain, however, if the new advances granted have always been very sound. Early in 1935 markets were shaken by troubles arising out of gambling speculations in pepper, shellac and tin. Monetary instability and cheap money have their drawbacks. On the whole, throughout 1934 and 1935 the clearing banks in spite of their efforts did not succeed in increasing their advances.

Securities

This last item shows the most spectacular change of all. From a total of £258 millions in 1929-30 and a ratio to deposits of 14 per cent, the gilt edged investments of the clearing banks have risen to £624 millions in June 1935 and a ratio of 31·2 per cent.[1]

[1] It seems that the clearing banks are working on the principle that the total of their investments and advances should be approximately 70 per cent of their deposits (see Appendix II, and graph, p. 104).

Having completed this analysis, we can see how difficult was the problem which the clearing banks had to solve. Their most profitable asset — advances — was steadily declining, profits on short money and bills were falling, and yet the Bank of England apparently wanted them to expand credits.

In 1932 the increase was divided between Treasury bills and gilt edged securities. In 1933 they more than offset a further contraction in advances and a reduction in Treasury bills, by purchases of government securities. Finally, in 1934, they were unable to keep up the level of their deposits any longer as it was not feasible to replace the disappearing Treasury bills by still further purchase of securities. A new increase in the total deposits in 1935, in spite of the stagnation in the 'advances' item, was only made possible by the increase in the floating debt and by the new agreement with the bill brokers. The banks could thus increase their short term loans and their bills, and, as a consequence, they were even able to acquire more securities without altering the ratio of their investments to their deposits.

We may therefore draw this conclusion from the experience of the last few years. It is possible for the commercial banks to create credit, but only to the extent that demands for such types of credit as the banks can reasonably grant, come from trade and industry or from the government. Such credits can, also, only be given in accordance with the practical rules of liquidity and the prudence which their very nature compels the banks to observe.

Another point which must be brought out in the evolution of the clearing banks since 1930 is the fact that all the changes which occurred tended to develop the substitution of the Government for the private or commercial debtor in the assets of the banks.

In 1930 the clearing banks held £128 millions of Treasury bills and £258 millions of 'gilt edged'. In 1935 these figures are respectively £200 and £620 millions. Furthermore, there is £120 millions indirect financing of Treasury bills and gilt edged through short money lent either to bill-brokers or to stock-brokers, whilst a substantial proportion of the advances are also in point of fact for the financing of gilt edged securities. *The final effect of these figures is that the clearing banks are now lending to the Government 50 per cent of their deposits.* In these circumstances one can well understand Mr. Beaumont Pease in his address to the shareholders of Lloyds Bank when he says that the operation shows a tendency to depart from the purely banking business and to take on more of the nature of an investment business.

THE DISCOUNT HOUSES

The Discount houses suffered less from the crisis in its acute phase than they did from the after effects and from the general change in market conditions since the end of 1932. They have been, in fact, the victims of the cheap money policy.

In 1931 they ran two risks: one on their bills and one on their securities. Contingent liabilities on German bills were certainly heavy in the discount market, but practically all these bills carried the signature of a big bank or of an acceptance house. The German risk was thus covered by the British risk and the latter proved to be a good one. It was soon clear that no acceptance house would fail, the Bank of England being ready to rediscount the *standstill bills*. The bill-brokers' risk therefore disappeared. With regard to the standstill bills, although completely frozen, the fact that they could be rediscounted made them readily marketable at a rate which did not exceed the normal rate

by more than $\frac{1}{16}$ per cent. The very working of the standstill agreement brought about a certain reduction in the amount of these bills outstanding, whilst some houses negotiated repayment in depreciated reichsmarks and cut their losses in order to get clear of them. Finally the bulk of what remained was gradually taken off the market by the acceptors. The discount market has thus been gradually cleared of all these standstill bills.

At the end of 1931 some of the bill-brokers were in an awkward position as a result of the heavy depreciation in gilt edged securities which followed the abandonment of the gold standard. A six to ten per cent depreciation in two or three million bonds was sufficient to wipe out practically all their capital and reserves. Help was, however, given to them, and all were able to carry through successfully until early in 1932 the rise began which was to carry all gilt edged securities to unheard of levels.

The worst troubles were thus removed, but the great conversion scheme of 1932 created very unsatisfactory conditions for bill-broking. Their business had already been changed both by the fall in world prices and by the contraction in international trade, which had occasioned a considerable reduction in the typical London acceptance upon which the discount market had been built up. There remained, however, an active market in Treasury bills which was a profitable one, especially in the first half of 1932 when a succession of bank rate reductions brought handsome margins of profits.

The schedule opposite shows the rapid change in conditions which then occurred and the difficult circumstances in which the discount market has had to work ever since.

From the beginning of 1932, Treasury bills tenders anticipated the fall in bank rate to such an extent that their issue rates were permanently below the bankers' short loan

		Average rates for all working days				Treasury Bills (Weekly Allot-ment)[2]
		Bank Rate	Mean of upper and lower quotations from *The Times*			
			Loans for Short Periods	*Day to Day Money*	*3 Months Fine Bank Bills*[1]	
1929	Year	5 4981	4 61	4 47	5 26	5 264
1930	,,	3 4141	2 45	2 27	2 57	2 484
1931	,,	3 9691	3 07	2 94	3 61	3 593
1932	,,	3 008	1 82	1 61	1 87	1 486
1933	,,	2 000	77	69	69	591
1934	,,	2 000	86	82	82	727
1931	Oct	6	4 81	4 44	5 69	5 452
	Nov	6	5 03	4 94	5 75	5 554
	Dec	6	4 88	4 25	5 88	5 596
1932	Jan	6	4 81	4·19	5 56	4 982
	Feb	6 5 (18th)	4 47	3 91	4 66	3 996
	Mar	5 4 (10th) 3½ (17th)	2 88	2 47	2 59	2 236
	Apr	3½ 3 (21st)	2 16	1 91	2 19	2 094
	May	3 2½ (12th)	1 50	1 31	1 44	1·088
	June	2½ 2 (30th)	1·22	1 03	1 06	852
	July	2	81	72	·91	662
	Aug	2	81	75	75	·608
	Sept	2	81	72	·66	554
	Oct	2	·75	75	81	737
	Nov	2	78	·75	88	·839
	Dec	2	94	81	1 09	1 037
1933	Jan	2	75	75	88	768
	Feb	2	81	75	84	·782
	Mar	2	75	69	63	·492
	Apr	2	75	69	59	468
	May	2	75	63	50	373
	June	2	72	66	50	403
	July	2	·72	63	47	394
	Aug	2	63	63	41	303
	Sept	2	63	63	44	369
	Oct	2	75	75	78	·728
	Nov	2	84	75	1 06	936
	Dec	2	1 13	78	1 16	1 059
1934	Jan	2	88	88	1 03	903
	Feb	2	88	·88	94	864
	Mar	2	·88	·88	·94	835
	Apr	2	88	88	97	891
	May	2	·88	84	·91	853
	June	2	94	91	·91	·853
	July	2	·88	·84	88	·759
	Aug	2	88	84	81	733
	Sept.	2	81	·78	·72	·587
	Oct	2	75	75	78	·672
	Nov	2	75	69	44	330
	Dec.	2	·91	72	·56	470
1935	Jan	2	·75	·66	·38	272
	Feb.	2	·66	63	38	·279
	Mar	2	·75	72	·59	·497
	Apr.	2	75	75	59	508
	May	2	75	75	59	514
	June	2	75	·75	72	·666

[1] Brokers' buying rate [2] Weighted average

From the Bank of England 'Statistical Summary'.

rates. In July these conditions were extended to fine bank bills, and it was only through borrowing at low rates from 'outside lenders' that the discount market was able to bring the day to day and short loan rates below 1 per cent. They were not, however, successful in bringing it below the rates ruling for bills.

We have already mentioned that under these conditions the discount houses were led to reduce substantially their borrowing from the clearing banks (whose loans were still made at 1 per cent). The attitude of the banks in allowing these conditions to be maintained for over two years, may have been due to the fact that they felt it desirable to reduce the number of houses competing in the bill market. Once acceptances have become scarce and most of the dealings are in Treasury bills, many of the justifications for the existence of an intermediary in the bill market lose part of their force whilst banks are inclined to buy their bills direct through the weekly tenders.

Conditions were obviously pointing to a contraction in the discount market. At the end of 1931 the house of Blydenstein repaid the main part of its capital[1] and gave up bill-broking business. In October 1933 a sixty-year-old house, Baker Duncombe went into voluntary liquidation. A few months earlier on the retirement of all but one of the partners of White & Shaxon, and that of Mr. Foà from King & Foà, the two houses were merged under the new firm of King & Shaxon. Since then some partners of other firms have also retired without being replaced.

The contraction, however, was not carried as far as might have been expected, on account of the fact that new developments were occurring. First of all the majority of the bill-brokers did not hesitate to turn once more to

[1] Being connected with Dutch interests it wished to protect its shareholders against the depreciation of the pound. It therefore only carried on with its banking business.

gilt edged, and they found in increased investments a means of raising the average yield on the funds lent to them. In actual fact it could be said that by the end of 1934 most bill-brokers had really turned jobbers in gilt edged to the extent of 30 per cent of their activities.[1] This abnormal situation seems extremely unsatisfactory and may well lead to trouble in the future.

The clearing banks at the end of 1934 recognized that the conditions in the money and discount market did not justify the strict maintenance of their tradition as regards loans to the money market (1 per cent under bank rate). They agreed to lend money to the bill-brokers at $\frac{1}{2}$ per cent against bills and maintained the rate of 1 per cent only for loans against securities. The liberality with which they now accept these securities, has induced the bill-brokers to increase still further their investments. This arrangement was originally made for three months. It was unsatisfactory because it dealt with money rates only and left unsolved the question of bill rates. The result of this has been that competition through banks and brokers for the weekly tenders has driven the Treasury bill rates down to new low record levels, and with them the rates for other bills also. In March 1935 the agreement between the clearing banks and the discount market was renewed and enlarged, the banks agreeing not to buy bills below a minimum of $\frac{1}{2}$ per cent. Although it might have been more satisfactory if money rates had been allowed to fall to a level determined by open competition, this arrangement seems to have worked fairly well. The necessity for taking such steps arises from the management of currency.

Once a system of freedom and automatic adjustment has been replaced by one of deliberate management, interference such as those mentioned above must gradually permeate the whole system.

[1] See graph p. 114 and also Part II. Chapter II, p. 233.

THE ACCEPTANCE HOUSES

We have already seen under what conditions the acceptance houses were working when the crisis came (see p. 163, the theoretic balance sheet). The greater part of their acceptances were on account of Germany, Austria, Hungary or South America. In most of the countries in which the engagements of the merchant bankers were heaviest, a suspension of payments in some form or another has occurred. The contingent liability in respect of these bills became, at least provisionally an actual one. In addition to this, the figure for deposits fell rapidly in face of assets frozen by the moratoria.

Let us review again the figures for the end of 1930. With £60 millions of capital resources, the acceptance houses had £105 millions of deposits, nearly all of foreign origin, and £145 millions of acceptances. The deposits fell rapidly by 40 per cent, and having had to meet these withdrawals, the merchant bankers found themselves faced with the possibility of having to pay at maturity about £50 millions of acceptances whose origin was in countries where moratoria had been declared.

There was a dangerous situation which might have led to tragedy but for the calmness of the City authorities.

The Bank of England intervened through the discount houses, and granted the necessary rediscount facilities so that moratoria bills could continue to be financed. The time thus gained, enabled arrangements to be made with the debtors, for the renewal of the credits and for their gradual amortization. The acceptance houses were thus able to continue operations and to improve their position little by little, by gathering in those credits which were still good, and by unfreezing in one way or another a large

proportion of their frozen assets. They were aided in this by the depreciation of the pound which made it possible for them to agree to substantial reductions in the gold values of their credits, and which gave their foreign debtors a considerable inducement to repay sterling credits.

This does not mean that the position of the acceptance houses was entirely satisfactory at the end of 1932. The risks were certainly considerably reduced, and what remained of the deposits were stable in volume, whilst the acceptances had been reduced from £145 to £80 millions. It seems possible that certain houses will find it difficult to rehabilitate themselves after the crisis and will disappear gradually. The organization of the market and the team spirit which prevailed undoubtedly saved several spectacular bank failures, which might have shaken the whole banking edifice. It is all the more probable that certain of the acceptance houses will disappear, as they are nearly all family businesses. Some of the families in question have incurred very heavy losses on account of the crisis, and with the present state of taxation, it is almost out of the question that a family's fortunes could be rebuilt up to the point where it is able once more to give a great standing to a banking firm.

The majority of the acceptance houses will nevertheless survive. It is of course possible that when the situation has cleared up, some of them may find it expedient to unite their resources and their experience; and to amalgamate, forming a limited company which would be solid enough to be able to make an appeal to the public for increased capital. It is, in any case, probable that in the future the total of acceptances granted by any one house will be very much less than in the past. We can, furthermore, visualize the possibility of certain houses going in less for specialization, and developing their business inside Great

Britain either still in the form of an acceptance house, or possibly adopting more the appearance of a *banque d'affaires*.

It will have been seen from the foregoing analysis that the British banks have shown a remarkable solidarity during the crisis. This solidarity is not entirely due to their administration, but is in part due to the calm confidence of the British depositors and to the team spirit which has been manifest in all quarters of the City.

CHAPTER VI

THE FUTURE OF THE CITY

As a fitting end to this study, it might perhaps be of interest to give a little more consideration to those aspects of our observations which may enable us to visualize in some measure the lines on which the future evolution of the City is likely to take place.

Politics mingle here with technical considerations, the two great questions which arise being those of the currency problem and of the nationalization of banks.

Opinion is still considerably divided as to the future monetary policy. Whilst official quarters maintain an attitude of expectancy and refuse to commit themselves pending price adjustments in other countries, the experts argue as to the policy to be recommended. Whilst some are in favour of retaining the present system of pure management, others feel that some uniform and automatic system will have to be adopted in order to permit a revival in international trade. Most bankers and economists agree that ultimately the pound will have to be stabilized once more in terms of gold, but this cannot take place without a preparatory period of *de facto* stabilization, that is to say of strict control of exchange fluctuations at a given rate.

Even a *de facto* stabilization would imply a more efficient defence of the rate fixed, than can result from the mere operation of the exchange fund. It involves a readiness on the part of the authorities to support sterling when necessary, through open market operations and even through bank rate manipulation. A return to normal in

currency matters would thus necessitate a return to orthodoxy both in money and in credit.

Omitting all controversial discussion, we shall content ourselves with pointing out the effect on the Bank figures of a return to gold.

On the basis of a 40 per cent devaluation, the Bank of England gold stock of £192 millions would become £320 millions and show a profit of £98 millions.[1] Furthermore when the time comes for stabilization, it is likely that the exchange fund will also hold many millions of gold which will be transferred to the Bank.

The gold basis thus obtained will be quite ample, according to the traditions of this country, both for the circulation and for the structure of banking credits. It would probably be sufficient even to permit sovereigns to be coined once more. This last measure might appear to be the best way of making the gold standard really work effectively and of restoring confidence completely.[2]

The profit realized on gold revaluation would enable the Treasury to cancel about £100 millions of debt (which would mean an additional saving of £3 millions per annum in the Budget). If necessary, part of the profit could be used to strengthen the reserve of the Bank.

The extreme alternative would be:

(*a*) to hand over to the Treasury £100 millions of the Government securities kept in the issue department thus counterbalancing the increase in gold. The notes issued

[1] It is true that the Exchange Equalization Account has suffered a loss on the gold which it has sold to the Bank since 1932, but it can safely be assumed that the profits made on the management of the account and interest earned will be sufficient to offset that loss.

[2] As it has been very often suggested that the maldistribution and insufficient amount of gold was one of the causes of the great depression, it is well worth remembering that in 1913 all international payments were easily made and fully guaranteed by a stock of gold amounting to 12,000 metric tons (7000 of which were in central banks) To-day the monetary stocks of gold in the world are no less than 21,000 metric tons, 18,000 of which are in the hands of central banks. On the question of maldistribution see Lionel Robbins, *The Great Depression*, pp. 22-29.

would be unaltered but their gold backing would be considerably strengthened.

(*b*) To credit the Treasury in 'Public Deposits' and to increase both the note issue and the reserve in the banking department. The Treasury would buy the gilt edged for cancellation in the open market and would pay for them with cheques on the Bank. These funds would eventually find their way to the deposit banks, the increase in 'Public deposits' being gradually transferred to 'bankers' deposits'.

Whilst the first method would strengthen the whole credit structure, the second one would be inflationary. It would provide the Banks with the necessary basis for a huge credit expansion.

If trade and industry require advances, it may well be that an expansion of credit to a moderate extent will take place, as it is doubtful, should such an event occur, if the banks would be in a position to unload their securities on the market in order to provide the necessary funds. It should be remembered, however, that the ratio of cash to deposits has been raised to 11 per cent, and that merely by reducing it to 10 per cent the banks would be in a position to lend £200 millions. It seems unlikely therefore, that the profit-taking on the gold of the Bank of England will be accompanied by any operations which might tend to increase appreciably the item of 'bankers' deposits'.

Assuming that the gold is revalued and the 'government securities' reduced accordingly in the Bank's balance sheet, the Bank would, on the basis of the figures in September 1935, have a gold cover for notes of 80 per cent and a gold cover for liabilities (notes plus deposits) of 58 per cent.

The preparatory stages of the return to gold will probably require some precautionary measures to avoid the return of some of those circumstances which brought about the abandonment of the gold standard in 1931. The Bank of

England for example will very probably keep a certain amount of control on foreign funds. It may be necessary for the monetary authorities not only to keep themselves informed as to the actual inflow and outflow of foreign money, but even as to changes in ownership within the total of deposits. Funds held in London by foreigners being much more unstable than those in British hands, it might be necessary to remind the banks that a 10 per cent cash ratio is not sufficient with regard to these funds. Whilst it would be a great loss to the City if foreigners were to be discouraged from holding in London cash balances which are a source of prosperity to many a City house, it is nevertheless important that their special nature should be constantly borne in mind and that their temporary holders should not invest them in such fashion that they might lose their required liquidity.

The free play of the gold standard is ultimately by far the best way of avoiding such a risk. If the bank rate had been raised in England in 1929 or 1930 to moderate the outflow of funds from England, the British banks would not have suffered so many losses in Central Europe in 1931.

To give its policy the utmost efficiency the Bank of England will probably have to continue its practice of asking the banks for certain information. A measure of co-operation may thus be achieved. Whilst, as we have seen, the discount market is likely to lose some of its importance, the Central bank will probably have to co-operate more directly with the commercial banks.

It was suggested in the Macmillan report that the Bank of England should be given the power to fix, and from time to time, to alter the ratio of cash to deposits of the clearing banks.[1] This might be useful as an additional means of

[1] Macmillan Report, pp. 365-71.

checking an untimely expansion of credit, although of course the Bank can already bring this about through sales of securities in the open market. On the other hand the experience of the last few years has proved that such a step could not in any way create a demand for credit, when this is not forthcoming.

Other developments in the City may be the creation or expansion of institutions which are designed to provide medium term credit for trade and industry. This seems to be the missing link in the City's chains of activities.

Controversies have raged for the last few years over the vexed question of loans to industry. We will return to this point after having examined the Socialist proposals.

In Great Britain as in other countries the nationalization of the banks forms part of the Socialist programme. There are, however, particular circumstances in this country which make the question a very vital one.

In the first place there is the psychological factor. The Socialists have never forgiven the City for their downfall in 1931. They were, they believe, forced to relinquish their power on account of a deliberate panic campaign on the part of the banks — a 'bankers' ramp'.

Secondly, the very high degree of concentration in the organization of the banking system makes it relatively easy for a government to take over the banks. In addition to this the creation of the Exchange Equalization Account has curtailed considerably the independence of the Bank of England in the matter of credit policy, in favour of the Government.

Lastly, the Socialists, when in power, caused the famous Macmillan report to be produced dealing with the operations of the banks and their relations with industry. The Socialists wish, now, to impose on the banks certain of the suggestions made by that committee. Their projects go,

however, very much further than that Committee's recommendations.

Let us now examine the Socialists' programme together with the answers given by the bankers.

The Labour Party seems to be determined, if it regains power, to make a great effort to obtain control of the economic system, and to apply a plan of socialization on a large scale. Its leaders, warned by previous failures, believe that they must first of all obtain the control of credit.

Their programme includes a number of quite coherent and logical measures, such as can always be laid down in principle on paper. The different facets of this programme are not always emphasized to the same degree, and within the Labour Party itself there are differences apparent as to the opportuneness for the complete or partial application of the programme. We have endeavoured to extract a list of the main changes which they hope to bring about in the realm of credit. This list has been taken from the proceedings of the congresses at Hastings and Leicester, from the party's pamphlets, and from the various writings of the Party theorists.

These measures include a reorganization of the Exchequer's department which will be turned into a Ministry of Finance, the nationalization of the Bank of England and of the joint stock banks, the supervision of the remaining banks under a system of licences, and finally the setting up of a National Investment Board.

The Ministry of Finance is to be divided into two sections of which one will concern itself with budgetary and fiscal questions and the other with monetary and banking problems. The latter will be charged with the practical application of the measures decided upon by the National Planning Authority.

The nationalization of the banks will be carried out by

means of the expropriation of the shareholders who will be indemnified by means of terminable annuities or by being given shares without voting powers.

1. *Bank of England*

The Governor of the Bank of England will be nominated by the Government and will be responsible to the Ministry of Finance.

The Bank will continue to exercise its control over the volume and price of credit, but whereas to-day that control is exercised either by means of open market operations or by the intermediary of the bill-brokers, under the new scheme it will be carried out by means of direct contact between the Bank and the joint stock banks.

The central bank will continue to control the exchanges, and in particular it will prevent the export of capital seeking to escape from the country. Finally it will continue to maintain friendly relationships with other central banks and with the Bank for International Settlements.

As a general rule the international and national banking and monetary policies will be decided by the Government and the Bank will be left free to carry out the measures necessary to put the policy into practice.

2. *Joint Stock Banks*

The shareholders having been expropriated and the State becoming the owner of the joint stock banks, a considerable amount of withdrawals of deposits must be expected. In order to guard against this the deposits will be guaranteed. On the other hand the staffs will become civil servants on the spot, but at first at least, each bank will continue normally to exist as a separate unit. There will be a considerable reduction in the number of directors, and a governing committee will be constituted composed of

the chairman or other representatives of each bank. This committee will have the task of guiding the policies of the banks so that they harmonize with the policy of the Government. In other words the policies of the bank will have to conform to the National Economic Plan. Furthermore if the authorities responsible for this plan decide that this or that industry needs credit facilities, the banks will have to grant such credits possibly without receiving the guarantees which would normally be required by bankers. The banks will have to co-operate with the Bank of England and with the Government in order to carry out the latter's credit policy, to prevent flights of capital and to assist in a fiscal control. They will probably be invited to co-operate in the reorganization of moribund industries by writing off their frozen advances, and they may be asked to grant medium-term credit to industry and agriculture — a type of credit which is noticeably missing in England at the moment.

3. *Other Banks*

The other specialized banks such as discount houses, acceptance houses, issuing houses, Anglo-foreign or foreign banks, etc., will probably be able to continue their operations under some system of licences, and, most likely under the general control of a special commissioner who will exercise some supervision over certain operations, particularly with regard to the movements of foreign funds.

4. *National Investment Board*

A National Investment Board will be formed with the object of directing the investment of capital in accordance with the requirements of the National Economic Plan. All new issues will have to obtain its authorization and it will also authorize dealings on the Stock Exchange either in

home or foreign securities. It will itself be concerned with the issues relative to socialized enterprises. Rights will be given to it to enable it to control the constitution of new companies and to supervise the investment policy of the assurance and other companies who have large sums to invest. This board will, in addition, carry out the functions now performed by the National Debt Commissioners and by the Public Works Loans Board.

Such is the Socialists' programme.

It is very important to point out that these ideas have already been partly realized by the measures taken by the National Government. These steps, having been taken in an entirely different spirit, have not been noticed, or at least have not caused any public anxiety. They have nevertheless, prepared the ground for socialization.

There is, thus, little doubt that since September 1931 the direction of monetary policy and to a certain extent of banking policy also, has been in the hands of the Chancellor of the Exchequer, rather than in those of the governor of the Bank of England. This has been especially the case since the formation of the Exchange Equalization Account which is administered by the Treasury and which gives it the control of the foreign exchanges. The nationalization of the Bank of England would therefore be more a change of outward form than a revolutionary alteration of existing circumstances. Nevertheless the moral effect would probably be very considerable, as the powers of the Treasury under Socialism would be exercised for entirely different ends to those which are at present pursued.

The same argument applies, in a lesser degree, to the idea of applying a system of licences to the specialized banks, and of controlling issues. In actual fact, the specialized banks, with the exception of the purely foreign ones, are already under a quite strict control by the central

bank either by reason of the information which they are invited to furnish, or by reason of the hints which are dropped to them to abstain from this or that type of operation.

In the same way new issues are now very strictly controlled. This control does not only apply to new foreign issues on account of exchange difficulties, but to home issues also as was seen in 1934 when the Government interfered in the proposed formation of a shipping company which would have competed with companies which had received governmental support.

There remains the question of the nationalization of the joint stock banks. It is naturally this point which has provoked most comments by the British bankers.

The bankers maintain that the Socialist arguments are based upon a series of false ideas, and they have pointed out the fallacies which are inherent in the projects of the Labour Party.

The bankers have all joined together to protest against the idea that bank deposits, payable on demand, can be considered as a sort of accumulated savings which can be invested on long or medium term and against the no less prevalent error of believing that bankers can create credit at will.

Mr. McKenna has met the precise accusation of excess profits by demonstrating that the declared dividends of 16 per cent to 18 per cent are illusory, as, when account is taken of the capital issued at a premium and of the declared and hidden reserves which are also the property of the shareholders, the real yield on the funds invested is never more than 5 per cent.

The chairman of the Midland Bank then carried the war into the enemy's camp, by saying 'The would-be reformers have put the banks upon their defence, not on any proof of

inefficiency, but in deference to a theoretic principle that they ought to be nationally owned and controlled. The application of this principle to banking is alleged by its exponents to be an overriding social obligation, though probably the millions of customers of the banks will base their judgment on more practical considerations ... Is the consumer of banking service, whether as the owner of deposited funds or as a trade borrower, likely to be better, more economically and more fairly served by one vast bank, invested with all the powers of unrestrained monopoly, or by a few highly competitive institutions?

'... A monopoly would still be a monopoly, even though under direct State management and control. If it stood for a private combination of the existing banks it would be called a money trust — a name of ill omen for commercial freedom — but it would be none the less a money trust if the control were exercised by a nominee of the Government ... What protection would the customer have if all banking were under one control?...

'Moreover, a monopoly, which can be efficiently operated only on a basis of more or less complete standardization, could not be expected to show the responsiveness to individual needs which is essential to good banking.'[1]

Changes may be necessary, but on different lines. As Mr. Tuke said, 'It may be that there is a gap in our financial system which needs filling ... (but) no one with a real knowledge of his subject would suggest that such a gap could be filled by the deposit banks without sacrificing essential strength and solidity.'[2]

Here is, in our opinion, the crucial point in the whole controversy. On the grounds of increased efficiency the Socialist case for nationalization is far from being proved;

[1] Speech to the shareholders, January 24th, 1935.
[2] Barclays Bank, annual meeting January 23rd, 1935.

and the avowed aim of such a momentous step is to compel the bankers to make advances which to the best of their judgment would be unsound, and to use the depositors' money for hazardous ventures which might temporarily reduce unemployment.

If industry requires advances which may be justified, but by their nature or length do not suit the banks, other institutions should be created or developed to that end. It is true that up to recent times there has been a gap in the British financial system in this respect. Since 1929, however, the Bank of England has been either responsible for, or has assisted in, a number of new developments aiming at the rationalization or the financing of industry.

In November 1929 the *Securities Management Trust* on the Board of which is Mr. Montagu Norman (governor of the Bank of England) together with various experts, was formed to investigate and advise on financial industrial and economic questions.

This Trust represents the industrial activities of the Bank of England and is concerned with undertakings in which the Bank has been financially interested. It works also in connection with other banks and has helped in financing the Lancashire Steel Corporation.

In January 1930 the Bank of England took £250,000 of shares in the *United Dominion Trust* (total capital £750,000), which finances purchases not of the consumer but of the producer: namely plant and machinery.

A subsidiary, *Credit for Industry*, was formed in May 1934 with an initial capital of £250,000 to enable small and medium size business to raise capital.

In April 1930 under the auspices of the Bank of England and the chairmanship of its governor, the *Bankers' Industrial Development Company* was formed with a nominal capital of £6,000,000 of which £4,500,000 were subscribed by large

banking and financial institutions and £1,500,000 by the Securities Management Trust. This company's object is to receive and consider proposals for rationalization of the basic industries and it has played an important part in the financing of the Lancashire Cotton Corporation which thoroughly reorganized the cotton industry.

It is in this direction that the solution should be looked for, and it is to be hoped that it will be found in a progressive process of evolution rather than in revolutionary changes, which might run the risk of causing such grave disturbances that not only the City but the whole of England might well be enfeebled and impoverished thereby.

APPENDICES

I—BANK OF ENGLAND[1]

(Averages of Wednesday figures in £ millions)

	ISSUE DEPARTMENT							BANKING DEPARTMENT						
									Other Deposits			Other Securities		
	Notes in Circulation[1]	Notes in Banking Department	Government Debt	Other Government Securities	Other Securities	Silver Coin	Gold Coin and Bullion	Public Deposits	Bankers	Other Accounts	Government Securities	Discounts and Advances	Securities	Reserve of Notes and Coin
1925 Year	382·5	26·9	11·0	8·7			145·6	14·1	71·7	41·1	41·1	14·7	60·3	28·7
1926 ,,	375·0	27·6	,,	,,			148·6	16·0	68·6	39·1	39·1	16·8	56·8	29·0
1927 ,,	373·3	32·9	,,	,,			150·1	16·4	66·4	36·7	43·6	15·9	43·6	34·3
1928 ,,	371·9	47·0	,,	,,			162·6	15·0	65·5	36·9	36·0	11·9	38·7	48·7
1929 ,,	362·3	44·6	,,	235·0	9·1	4·9	146·9	14·5	62·9	36·9	55·9	11·2	19·9	45·4
1930 ,,	358·6	56·5	,,	233·1	11·4	4·5	155·1	14·8	65·5	35·5	49·7	8·7	18·1	57·3
1931 ,,	354·8	51·3	,,	238·2	13·0	4·1	139·7	15·4	64·7	38·3	45·5	10·8	27·8	52·3
1932 ,,	359·5	45·9	,,	236·7	23·5	3·8	130·4	16·3	81·3	34·3	64·0	12·8	26·2	46·7
1933 ,,	371·2	69·2	,,	244·5	4·6	3·7	176·6	17·7	99·9	40·1	79·6	11·8	14·1	70·2
1934 ,,	378·7	72·8	,,	244·9	·8	3·3	191·5	18·6	100·3	36·7	81·1	7·8	11·1	73·5
1931 Jan	351·7	51·3	,,	232·9	11·7	4·1	143·0	19·3	64·4	33·4	48·9	10·9	23·4	52·0
Feb	347·1	53·4	,,	232·1	12·5	4·4	140·5	13·7	60·1	33·5	38·1	8·5	24·7	54·1
Mar	349·3	52·6	,,	233·9	10·8	4·3	141·9	9·1	60·8	33·5	30·4	9·8	28·1	53·4
Apr	353·7	51·9	,,	232·2	12·7	4·1	145·6	13·4	56·6	35·3	32·0	11·4	26·9	52·8
May	353·9	55·5	,,	232·5	12·4	4·1	149·4	12·2	58·0	34·3	33·3	6·2	26·3	56·5
June	353·9	63·8	,,	232·9	12·0	4·1	157·7	14·1	68·7	33·6	33·2	8·2	28·0	64·9
July	358·2	56·3	,,	233·7	11·2	4·1	154·5	14·9	69·3	33·8	36·3	13·1	29·1	57·5
Aug	357·4	50·7	,,	257·5	2·4	4·1	133·1	19·2	59·2	39·2	50·4	8·1	25·4	52·0
Sept.	354·1	55·8	,,	245·1	14·8	4·1	134·9	20·9	60·2	51·3	56·7	10·4	26·4	57·1
Oct	356·8	53·7	,,	237·8	22·2	4·0	135·5	15·3	68·2	52·2	56·5	13·0	28·9	55·0
Nov.	356·3	39·4	,,	242·8	17·1	4·1	120·7	21·8	60·2	38·6	55·1	11·8	30·9	40·5
Dec	363·0	32·7	,,	244·2	15·8	4·0	120·7	10·7	86·7	39·0	71·0	15·7	34·1	33·4
1932 Jan	352·9	42·9	,,	243·7	16·5	3·8	120·8	18·5	75·6	38·3	54·0	15·7	37·2	43·5
Feb	346·4	49·4	,,	250·1	10·0	3·9	120·8	15·2	70·7	32·4	35·6	12·5	38·4	50·0
Mar.	355·9	39·9	,,	245·2	15·0	3·8	120·8	12·4	75·0	33·3	43·0	11·5	43·9	40·6
Apr	355·9	39·9	,,	219·1	41·1	3·8	120·8	13·7	72·3	34·1	56·7	11·5	29·0	40·5
May	356·9	40·5	,,	200·7	59·5	3·8	122·4	17·3	76·3	33·9	70·9	11·9	21·3	41·2
June	358·3	50·0	,,	200·6	59·6	3·8	133·3	23·7	84·7	33·9	70·2	13·4	25·9	50·7
July	367·0	44·7	,,	241·4	18·8	3·8	136·7	15·7	85·0	34·0	67·1	14·8	25·2	45·5
Aug	368·1	45·6	,,	238·0	22·2	3·8	138·7	15·0	83·9	35·0	72·2	13·9	19·5	46·4
Sept	361·6	52·7	,,	250·2	10·0	3·8	139·3	17·0	86·1	33·2	70·4	12·1	18·4	53·6
Oct	360·4	54·0	,,	248·4	11·8	3·8	139·4	20·7	79·6	34·3	67·3	11·6	18·4	55·0
Nov.	359·7	54·7	,,	251·6	8·6	3·8	139·4	16·9	86·7	34·6	70·6	11·9	17·8	55·7
Dec	369·8	34·8	,,	254·7	5·5	3·8	129·6	8·4	98·0	34·1	90·5	13·5	18·8	35·7

[1] From the Bank of England 'Statistical Summary'

I—BANK OF ENGLAND—(*continued*)

	Issue Department: Notes in Circulation[1]	Issue Department: Notes in Banking Department	Issue Department: Government Debt	Issue Department: Other Government Securities	Issue Department: Other Securities	Issue Department: Silver Coin	Issue Department: Gold Coin and Bullion	Banking Department: Public Deposits	Banking Department: Other Deposits: Bankers	Banking Department: Other Deposits: Other Accounts	Banking Department: Government Securities	Banking Department: Other Securities: Discounts and Advances	Banking Department: Other Securities: Securities	Banking Department: Reserve of Notes and Coin
1933 Jan	357·3	38·4	11·0	255·3	5·0	3·7	120·7	12·3	113·9	33·2	99·8	20·6	17·9	39·2
Feb	356·5	50·5	,,	252·1	8·2	3·7	132·0	24·4	93·3	33·9	89·2	12·0	17·3	51·2
Mar	363·6	75·0	,,	247·8	12·5	3·7	163·6	22·6	100·2	34·4	70·1	11·8	17·7	75·8
Apr	374·0	67·2	,,	236·6	8·7	3·7	181·2	13·2	100·8	35·7	73·9	11·7	13·7	68·1
May	372·1	74·0	,,	239·9	5·4	3·7	186·1	16·9	92·2	39·0	68·2	11·5	11·3	74·9
June	375·2	72·6	,,	243·7	1·7	3·6	187·8	14·9	101·9	39·7	75·2	13·3	12·0	73·8
July	378·0	71·8	,,	243·9	1·5	3·6	189·8	16·6	95·2	55·3	85·7	13·5	12·8	73·1
Aug	379·0	71·2	,,	243·7	1·6	3·7	190·2	26·5	90·1	45·9	85·7	10·5	11·9	72·5
Sept	372·3	78·1	,,	243·1	2·2	3·7	190·4	17·1	102·5	44·1	80·4	9·3	12·7	79·5
Oct.	371·5	78·9	,,	242·9	2·5	3·6	190·4	12·6	108·3	45·5	80·4	9·7	13·6	80·3
Nov	370·5	80·0	,,	242·9	2·5	3·6	190·5	16·8	103·2	38·8	71·9	8·6	14·7	81·3
Dec	384·7	66·0	,,	242·9	2·5	3·6	190·7	15·9	101·1	36·6	80·0	10·5	14·0	67·1
1934 Jan	370·4	80·4	255·5		1·0	3·5	190·8	18·7	115·8	37·1	83·7	11·7	12·9	81·3
Feb	366·6	84·3	256·1		·3	3·6	190·9	25·5	97·3	36·5	72·7	7·6	11·9	85·3
Mar	372·0	79·0	256·2		·3	3·5	191·0	15·9	103·4	36·4	76·3	5·7	11·9	80·1
Apr	376·6	74·5	256·0		·5	3·5	191·1	14·5	104·4	37·5	82·8	5·5	10·5	75·5
May	378·7	72·6	255·2		1·3	3·5	191·3	10·8	104·6	35·8	79·9	5·4	10·2	73·4
June	379·1	72·3	254·8		1·7	3·5	191·4	19·2	97·7	36·0	80·3	6·0	11·5	73·0
July	384·6	67·0	255·8		·7	3·5	191·5	18·9	98·5	36·4	83·0	10·0	11·3	67·0
Aug	385·0	66·7	256·0		·6	3·4	191·7	26·1	86·8	36·0	83·3	6·5	10·1	67·2
Sept	378·4	73·4	256·1		·7	3·2	191·8	26·1	93·5	37·0	83·3	6·6	11·0	74·0
Oct	378·1	73·8	255·9		1·1	3·0	192·0	17·8	104·1	37·8	81·7	10·7	10·6	74·5
Nov	378·8	73·3	256·6		·5	2·9	192·1	21·0	97·5	37·7	79·8	9·3	11·0	73·9
Dec	396·5	55·8	256·5		·9	2·6	192·2	8·7	98·0	36·7	85·5	8·6	10·9	56·3
1935 Jan.	381·4	70·9	256·9		·7	2·4	192·4	14·8	108·4	37·6	84·9	12·1	10·3	71·5
Feb	375·7	76·8	256·7		·9	2·4	192·5	20·1	99·1	40·3	82·4	7·6	10·3	77·4
Mar.	379·6	72·9	257·3		·4	2·3	192·5	13·7	103·7	40·7	85·9	5·5	11·4	73·5
Apr	390·2	62·3	257·9		·2	1·9	192·6	9·1	102·9	39·8	90·6	6·0	10·2	62·9
May	391·0	61·6	258·0		·2	1·8	192·6	12·0	102·4	37·6	91·0	5·6	10·9	62·3
June	396·8	55·9	257·9		·3	1·8	192·7	11·3	102·7	37·0	93·4	6·8	12·1	56·6
July	402·1	50·6	257·7		·6	1·7	192·7	11·8	99·8	37·7	92·4	10·9	13·0	51·1
Aug	404·3	48·7	257·8		·7	1·5	193·0	14·8	89·9	37·1	83·5	13·8	13·4	49·3
Sept	399·5	53·9	257·5		1·0	1·5	193·5	14·7	92·6	38·3	83·6	12·7	12·9	54·7
Oct	400·1	53·9	257·3		1·1	1·5	194·0	31·0	79·2	38·2	85·4	14·2	12·0	54·7

II—LONDON CLEARING BANKS

AVERAGE WEEKLY BALANCES

£ millions

Compiled from Monthly Statements

	Current Accounts	Deposit Accounts	Current Accounts as Percentage of Total	Current, Deposit and other Accounts	Each asset is also shown as a percentage of Current, Deposit and other Accounts										Acceptances, Endorsements, etc
					Coin, Notes and Balances with Bank of England		Money at Call and Short Notice		Bills Discounted		Advances to Customers and other accounts		Investments		
Averages 1925				1,661·6	195·7	11·8	116·7	7·0	226·2	13·6	855·9	51·5	286·4	17·2	100·2
1926				1,664·7	195·3	11·7	120·4	7·2	216·2	13·0	891·6	53·6	264·9	15·9	93·2
1927				1,712·7	197·5	11·5	136·8	8·0	218·4	12·8	928·4	54·2	253·8	14·8	97·6
1928	954	755	55·8	1,766	196	11·1	150	8·5	237	13·4	948	53·7	254	14·4	166·5
1929	940	798	54·1	1,800	194	10·8	145	8·1	229	12·7	991	55·1	257	14·3	202·9
1930	921	820	52·9	1,801	192	10·7	140	7·8	264	14·7	963	53·5	258	14·3	136·0
1931	895	804	52·7	1,760	182	10·4	121	6·9	256	14·6	919	52·2	301	17·1	113·6
1932	867	883	49·5	1,791	187	10·4	116	6·5	308	17·2	844	47·1	348	19·4	89·1
1933	978	930	51·3	1,953	212	10·8	102	5·2	354	18·1	759	38·9	537	27·5	
1934	953	886	51·8	1,880	212	11·3	134	7·1	230	12·2	753	40·0	560	29·8	
1933 Dec	1,015	900	53·0	1,941	213	11·0	119	6·2	311	16·0	736	37·9	565	29·1	
1934 Jan	974	893	52·2	1,920	223	11·6	130	6·8	284	14·8	735	38·3	558	29·0	
Feb.	931	881	51·4	1,867	209	11·2	118	6·3	250	13·4	742	39·7	560	30·8	
Mar	910	880	50·8	1,831	219	12·0	120	6·6	202	11·0	753	41·1	547	29·9	
Apr	919	890	50·8	1,852	222	12·0	132	7·1	212	11·4	759	41·0	531	28·8	
May	925	887	51·1	1,858	218	11·7	131	7·0	222	12·0	755	40·6	542	29·1	
June	954	888	51·8	1,870	199	10·7	140	7·5	228	12·2	757	40·5	549	29·4	
July	960	874	52·3	1,871	210	11·2	138	7·4	224	12·0	759	40·6	550	29·4	
Aug	939	869	51·9	1,856	196	10·6	139	7·5	222	11·9	756	40·7	557	30·0	
Sept.	948	873	52·1	1,858	207	11·1	137	7·3	213	11·4	754	40·6	563	30·3	
Oct	960	885	52·0	1,891	213	11·3	136	7·2	216	11·4	756	40·0	575	30·4	
Nov.	975	900	52·0	1,911	210	11·0	135	7·0	232	12·2	755	39·5	589	30·8	
Dec	1,044	910	53·4	1,971	216	11·0	151	7·6	255	12·9	754	38·2	594	30·2	
1935 Jan.	1,034	899	53·5	1,982	225	11·3	137	6·9	284	14·3	753	38·0	593	29·9	
Feb.	1,009	898	52·9	1,954	213	10·9	127	6·5	265	13·6	756	38·7	606	31·0	
Mar	994	886	52·8	1,923	214	11·1	133	6·9	207	10·8	767	39·9	614	31·9	
Apr.	1,004	895	52·9	1,940	217	11·2	137	7·1	199	10·3	775	39·9	618	31·8	
May	1,015	897	53·1	1,961	219	11·1	142	7·2	218	11·1	770	39·3	620	31·6	
June	1,072	907	54·1	2,003	217	10·8	143	7·1	244	12·2	775	38·7	624	31·2	
July	1,084	899	54·7	2,019	219	10·9	145	7·2	274	13·6	775	38·4	615	30·5	
Aug	1,068	899	54·3	2,013	213	10·6	149	7·4	287	14·2	765	38·0	615	30·6	
Sept.	1,080	903	54·5	2,024	208	10·3	147	7·3	299	14·8	763	37·7	618	30·6	
Oct	1,064	921	53·6	2,036	204	10·0	141	6·9	297	14·6	773	38·0	626	30·8	

III — ACCEPTANCE HOUSES

Published Balance Sheets

	Capital	Reserves and Carry Forward	Deposits	Acceptances	Cash, at Bank and Call Money	Bills	Investments	Advances	Premises
				BARING BROS AND CO. LTD					
Dec 1927	1,025,000	1,016,964	22,462,367	7,638,264	7,651,114	12,349,739	2,088,308	2,288,170	127,000
— 1928	1,025,000	1,017,265	22,096,856	9,253,106	7,393,421	11,331,486	1,066,301	4,220,914	127,000
— 1929	1,025,000	1,018,439	20,069,156	6,695,343	6,822,886	9,426,283	1,420,502	4,315,924	127,000
— 1930	2,050,000	1,019,283	17,557,057	5,508,493	6,323,961	7,000,415	3,715,247	3,459,717	127,000
— 1931	2,050,000	1,020,539	17,640,573	2,735,714	6,073,107	6,998,954	2,915,224	4,596,827	127,000
— 1932	2,050,000	1 021,385	17 411,784	2,529,109	5,655,572	6,223,092	4,640,669	3,836,835	127,000
— 1933	2,050,000	1,021,598	19,540,424	1,795,521	5,394,166	6,197,177	5,787,619	5,106,061	127,000
— 1934	2,050,000	1,021,812	19,669,010	2,104,732	5,565,472	5,119,455	7,044,632	4,874,263	127,000
				HAMBROS BANK LIMITED					
Mar. 1928	1,000,000	1,262,603	18,918,560	10,872,316	5,542,956	3,802,382	3,960,940	7,421,397	453,486
— 1929	1,400,000	1,270,673	18,520,140	12,518,116	5,872,186	3,970,704	4,433,230	6,460,905	453,486
— 1930	1,400,000	1,267,342	15,851,362	10,984,441	4,830,861	3,527,047	3,838,124	5,869,178	453,486
— 1931	1,400,000	1,269,488	18,376,766	10,988,551	7,456,034	3,987,264	4,147,366	5,002,014	453,486
— 1932	1,400,000	1,187,695	10,653,450	9,202,701	4,450,657	1,526,404	2,943,338	3,867,258	453,486
— 1933	1 400,000	1,189,543	10,643,073	7,825,292	3,276,042	2,543,721	3,405,067	3,556,473	453,486
— 1934	1,400,000	1,190,695	12,863,548	10,179,976	3,366,624	2,552,498	4,555,150	4,529,106	453,486
— 1935	1,400,000[1]	1,192,616	13,568,079	10,940,561	4,083,332	2,272,481	4,618,509	4,732,886	453,486
				ERLANGERS LIMITED					
Dec 1928	1,600,000	275,000	3,490,594	3,961,033	1,655,601	834,289	1,239,555	1,576,149	60,000
— 1929	1,600,000	325,000	3,134,259	4,217,670	1,766,917	886,146	1,377,907	968,289	60,000
— 1930	1,600,000	325,000	4,145,821	4,123,557	2,309,361	926,900	1,324,960	1,449,600	60,000
— 1931	1,600,000	325,000	1,236,346	2,640,860	709,769	567,238	919,693	904,646	60,000
— 1932	1,600,000	325,000	1,684,381	2,786,063	721,220	507,549	1,029,853	1,336,217	60,000
— 1933	1,600,000	325,000	2,021,498	2,920,202	857,660	570,003	1,138,513	1,396,556	60,000
— 1934	1,600,000	325,000	2,026,203	3,678,318	946,468	588,450	1,018,288	1,396,198	60,000

[1] Subscribed Capital £4,400,000.

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III—ACCEPTANCE HOUSES—(*continued*)

Published Balance Sheets

		Capital	Reserves and Carry Forward	Deposits	Acceptances	Cash at Bank, and Call Money	Bills	Investments	Advances	Premises
					S JAPHET AND CO LIMITED					
Dec	1927	1,000,000	400,000	6,523,713	5,426,388	2,273,174	693,887	1,577,686	3,221,247	157,717
—	1928	1,250,000	600,000	7,307,855	7,306,372	2,671,227	886,126	1,837,021	3,579,575	183,905
—	1929	1,300,000	700,000	7,302,579	6,964,472	3,024,158	872,870	1,828,398	3,395,847	181,305
—	1930	1,300,000	700,000	6,212,606	6,352,080	2,866,132	733,157	1,503,628	2,928,169	181,517
—	1931	1,300,000	400,000	2,271,962	4,564,066	1,008,726	75,010	575,061	2,131,646	181,517
—	1932	1,300,000	250,000	1,974,227	3,498,925	1,113,753	53,355	647,303	1,431,940	180,000
—	1933	1,300,000	250,000	1,679,073	2,866,495	1,212,452	60,944	588,796	1,186,882	180,000
—	1934	1,300,000	250,000	1,874,850	2,508,763	1,431,954	71,161	554,631	1,187,104	180,000
					GRACE BROTHERS AND CO LIMITED					
June	1927	1,015,000	50,000	763,853	990,754	633,555	218,194	516,959	324,189	135,956
—	1928	1,015,000	50,000	747,287	1,667,393	625,820	448,622	278,239	298,936	160,670
—	1929	1,015,000	100,000	949,999	2,061,608	587,011	534,950	258,549	526,995	157,491
—	1930	1,015,000	100,000	661,743	1,796,927	528,680	445,209	245,188	402,232	155,430
—	1931	1,015,000	100,000	578,386	526,928	251,231	313,239	465,386	509,903	153,626
—	1932	1,015,000	—	481,915	391,526	343,103	103,138	374,600	612,679	151,801
—	1933	1,015,000	—	454,242	332,077	446,106	56,433	223,230	592,602	150,871
—	1934	1,015,000	—	412,422	240,070	296,538	96,939	275,500	609,250	149,196
					LONDON MERCHANT BANK LIMITED					
Dec	1927	825,000	68,705	1,364,970	2,614,522	784,511	349,372	166,519	916,895	41,378
—	1928	825,000	45,066	1,437 214	3,377,290	779,544	480,976	162,752	843,924	40,082
—	1929	825,000	47,236	1,356,754	3,293,152	1,059,530	442,145	165,101	523,477	38,736
—	1930	825,000	40,823	1,067,058	2,924,603	803,152	304,163	157,413	630,816	37,335
—	1931	825,000	—	195,438	1,403,036	345,788	57,290	41,747	539,731	35,878
—	1932	825,000	—	193,603	911,937	322,295	45,694	74,244	354,497	34,363
—	1933	825,000	175,129[1]	195,638	885,661	333,796	68,551	98,866	301,690	32,724
—	1934	825,000	175,129[1]	226,361	959,115	372,180	103,988	88,163	262,957	31,020

[1] Loss

IV—ACCEPTANCES IN CERTAIN BANKS

(in thousands of £)

	at December 31st of nearest date							
	1927	1928	1929	1930	1931	1932	1933	1934
I. Anglo-Foreign Banks								
A *Anglo-South American*								
Anglo-South American	6,020	6,155	8,330	9,403	12,490	3,210	2,480	2,410
Bank of London and South America	1,639	2,410	2,450	2,090	1,515	1,150	1,350	1,610
British Bank of South America	734	—	—	—	—	—	—	—
	8,393	8,565	10,780	11,493	14,005	4,360	3,830	4,020
B *Sundries*								
Anglo-French	—	1,230	2,950	3,520	1,760	1,165	307	—
Anglo-International	2,637	3,150	2,565	3,030	2,360	1,826	1,414	1,176
Anglo-Portuguese	—	—	—	650	140	294	394	633
British and Italian Banking	4,383	4,610	2,232	—	—	—	—	—
British Overseas Bank	2,838	4,089	4,660	3,924	4,275	3,465	2,989	3,121
Imperial Bank of Persia	—	371	128	104	80	151	278	—
London and Eastern Trading Bank	1,240	1,715	1,360	1,586	1,200	62	30	17
Total A and B	19,491	23,730	24,675	24,307	23,820	11,323	9,242	
II Anglo-Indian Banks								
Chartered Bank of India	2,554	2,620	1,285	990	630	940	608	885
P & O. Banking Corporation	1,075	803	650	180	200	200	118	130
Eastern Bank	1,257	910	1,175	1,530	890	1,025	978	781
Mercantile Bank	188	300	250	150	120	190	125	214
National Bank of India	1,091	950	650	500	195	295	383	351
Total	6,165	5,583	4,010	3,350	2,035	2,650	2,212	2,361
III Hongkong & Shanghai [1]						156	210	419
IV. Anglo-African Banks								
Barclays Bank (D C O)	4,945	5,094	3,720	3,695	3,465	3,544	3,408	4,540
Standard Bk of S. Africa	2,265	2,236	2,885	1,600	990	834	1,092	1,092
Bk of Brit West Africa	324	48	62	315	21	69	65	85
Total	7,534	7,378	6,667	5,610	4,476	4,447	4,565	5,718

[1] Fig. converted in £ at rate ruling on December 31st.

V—DISCOUNT HOUSES

	Own Resources	Loans and Deposits	Bills Portfolio	Shares Portfolio
December 1927				
Alexanders Discount	1,390,000	19,110,000	16,240,000	3,340,000
National Discount	2,050,000	29,210,000	26,160,000	2,850,000
Union Discount	2,650,000	44,800,000	38,350,000	7,490,000
	6,090,000	93,120,000	80,750,000	13,680,000
December 1928				
Alexanders Discount	1,400,000	21,370,000	17,160,000	5,100,000
National Discount	2,080,000	25,180,000	22,710,000	3,200,000
Union Discount	3,370,000	45,900,000	39,210,000	8,950,000
	6,850,000	92,450,000	79,080,000	17,250,000
December 1929				
Alexanders Discount	1,400,000	19,390,000	16,930,000	3,020,000
National Discount	2,100,000	26,570,000	24,140,000	2,910,000
Union Discount	3,410,000	45,590,000	40,260,000	7,630,000
	6,910,000	91,550,000	81,330,000	13,560,000
December 1930				
Alexanders Discount	2,060,000	23,200,000	20,060,000	4,590,000
National Discount	2,170,000	26,800,000	23,920,000	4,040,000
Union Discount	3,300,000	47,520,000	41,070,000	8,600,000
	7,530,000	97,520,000	85,050,000	17,230,000
December 1931				
Alexanders Discount	2,060,000	23,270,000	19,420,000	5,140,000
National Discount	2,170,000	26,010,000	25,250,000	2,530,000
Union Discount	3,420,000	36,300,000	32,830,000	5,990,000
	7,650,000	85,580,000	77,500,000	13,660,000
December 1932				
Alexanders Discount	2,070,000	25,640,000	21,270,000	5,110,000
National Discount	2,180,000	26,940,000	25,120,000	3,520,000
Union Discount	3,330,000	53,290,000	41,040,000	11,620,000
	7,580,000	105,870,000	87,430,000	20,250,000
December 1933				
Alexanders Discount	2,070,000	25,200,000	16,200,000	10,200,000
National Discount	2,180,000	30,300,000	24,800,000	6,400,000
Union Discount	3,350,000	55,400,000	45,600,000	11,800,000
	7,600,000	110,900,000	86,600,000	28,400,000
December 1934				
Alexanders Discount	2,105,000	22,300,000	10,800,000	12,600,000
National Discount	2,190,000	30,400,000	22,700,000	8,700,000
Union Discount	3.375,000	52,200,000	38,700,000	14,200,000
	7,670,000	105,900,000	72,200,000	35,500,000

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AND

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3. NEWSPAPERS

The Financial News
The Financial Times

4. ANNUALS

The Bankers' Almanac and Year Book.
An indispensable work of reference, which is divided into three parts. British banks, foreign banks, and general information and statistics. This book gives the latest balance sheets of the banks.

5. GENERAL BOOKS

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